THE NEW DEMOCRAT

WINTER 1998

BLUEPRINT

IDEAS FOR A NEW CENTURY

Volume 2

WINNING IN THE NEW ECONOMY

An Agenda For:
Growth / Globalization / Lifelong Learning

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INTRODUCTION

With this volume of **Blueprint**, we begin to lay out the substantive agenda for a new generation of progressive action — the ideas for a new century. We begin this endeavor where so much of the world around us begins: with a New Economy that is changing the way we live.

Today, people, products, and ideas move across the globe more easily than our grandparents traveled across town. Rapid technological advances are transforming our world bit by bit and byte by byte. The economy is no longer driven by manpower or machinery, but by minds — and the knowledge, innovation, and creativity they produce. The centralization and hierarchy of work-places defined by the assembly line have given way to the flexible, team-oriented atmosphere of many of today's modern offices.

The New Economy is found not only in Silicon Valley — it is found wherever Americans are using information, knowledge, and creativity to create new industries and rethink old ones. The New Economy is not only about surfing the Internet — it is about working in new and different ways. The New Economy is not only the promise of good economic times — it's the promise of bringing greater opportunities for success to every American.

Government policy can harness it or hamper it, support it or impede it, but this much is clear: The New Economy is here to stay. The test for this nation, and especially for the Democratic Party, is whether we will be able to make the New Economy an era of both economic growth and social justice, whether we will be able to channel change into progress. That means we need bold new thinking about managing America's transition to the New Economy. It means that we must not only modernize and reform the old, but build anew for our own time. And it means we must realize that the old responses don't answer new questions.

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In this volume of **Blueprint**, we lay out the next economic agenda:

- Developing the opportunity and promise of the global economy through policies that deal with a new world of trade and commerce.

- Getting the economy moving faster with more emphasis on research, development, and exploration — the circuits of innovation, the true engine of 21st century economic growth.

- Making sure that every American who is willing to work hard and play by the new rules can succeed in the New Economy.

The last time America went through such an epochal transformation — as we moved from an agricultural to an industrial economy — it took a generation of creative, progressive leaders to break with the old order and offer innovative solutions to meet the challenges of the age. In this present transformation, America is looking for the same. The world is changing all around us. The time for daring and dynamic thinking is now. ✧

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Ideas that work . . .

DLC IDEAS are bold, innovative, and in tune with the times; they promote TRADITIONAL VALUES like opportunity, responsibility, and community; and, most important, they work. Ideas developed or promoted by the DLC and put into action by PRESIDENT CLINTON — an economic strategy of fiscal discipline, expanded trade and investments in people; expanding the earned income tax credit; REPLACING WELFARE with a system of work; REINVENTING GOVERNMENT; community policing; national service — are improving the lives of tens of millions of our fellow citizens.

The challenges ahead . . .

As a new century approaches, America faces daunting NEW CHALLENGES to assure American leadership in a world economy; to build a world–class education system; to provide retirement security for generations to come; and to equip citizens with the skills they need to prosper in the NEW ECONOMY.

These are tall orders. Politics as usual will not do.

"We must continue to modernize and renew ourselves — to constantly look for new paths to the oldest truths — to find ways to meet the challenges of change without changing what is so fundamental in our party, in our families, and in ourselves . . . Together let's continue the journey of hope and progress that the DLC has done so much to guide."

—VICE PRESIDENT AL GORE, JULY 18, 1997

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The Challenge

As the 20th century draws to a close, the New Economy is changing the very fabric of our lives.

If Americans are to succeed in the coming century, we must meet the challenges of fostering long-term economic growth, guiding the forces of globalization, and helping citizens use this era of rapid change to their advantage.

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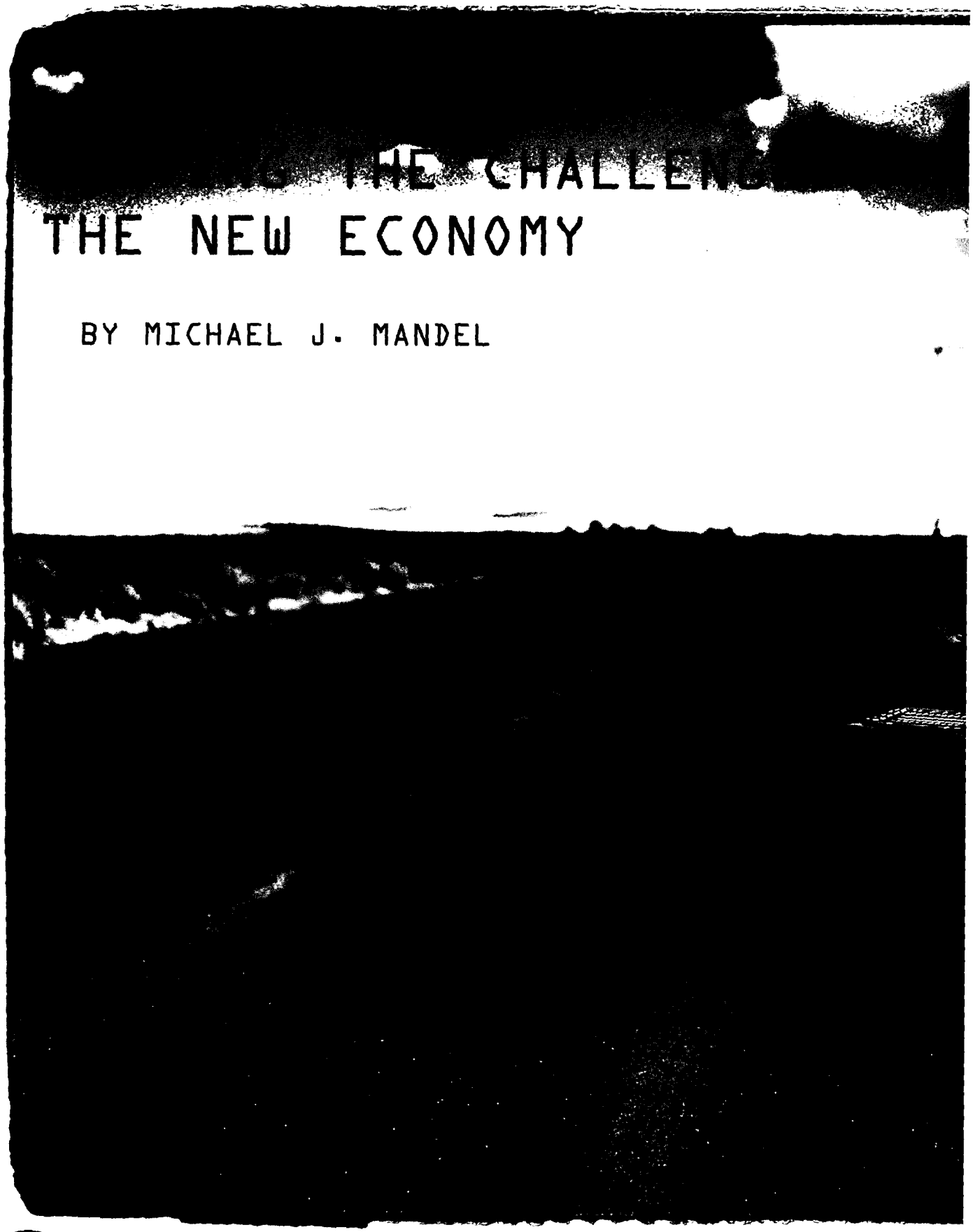

THE CHALLENGE OF THE NEW ECONOMY

BY MICHAEL J. MANDEL

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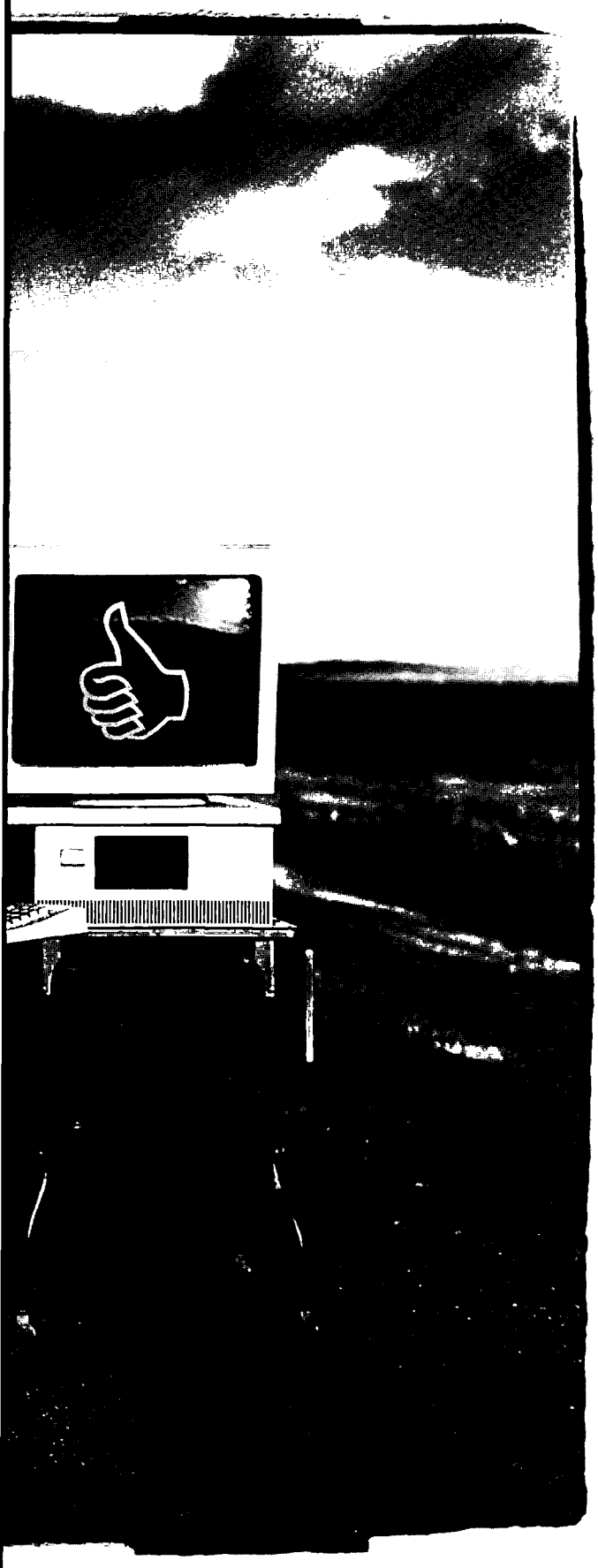

It is the dawn of a new era. Technology is opening the doors for a prodigious burst of national creativity, as new industries spring up seemingly overnight. Global trade is pouring a flood of ideas and commerce across national boundaries, helping to spur innovation. Companies are restructuring themselves — laying off some workers, while giving others much greater responsibility. American manufacturers, left for dead in the 1980's, are roaring back to life with new ways of working and new technologies. Inflation, once out of control, is now dormant.

This transformation has profound implications — for the economy, for policy, for politics. Some skeptics maintain that all is the same. But with each passing day, it becomes harder to ignore the signs that something very real has changed. The New Economy has been born — and it is transforming America and much of the world at a pace that is scarcely imaginable.

The twin motive forces of this New Economy are technological innovation and globalization. The Information Revolution is transforming virtually every sector of the economy. And the U.S. economy's

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Michael J. Mandel is economics editor at Business Week, where he won the 1998 Loeb Award for his coverage of the New Economy. Mandel holds a Ph.D. in economics from Harvard University.

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openness to the free flows of trade, money, and ideas has reinforced the country's position as the financial and economic capital of the world.

The New Economy is not simply an abstraction — it touches every person, from every walk of life. It is the 70-year-old who can walk because of an artificial knee made out of high-tech materials. It is the network technician who becomes the first community college graduate from a poor immigrant family. It is the worker at the small steel company that employs sophisticated technology to deliver better steel faster. It is the parent who uses e-mail and fax machines to work from home.

And not the least, the New Economy is vibrant and vital. Since 1994 — roughly coinciding with the arrival of the Internet on the scene — the U.S. economy has performed better than expected on virtually every measure. Since 1994, the economy has grown at a 3.3 percent rate, a full percentage point above what most forecasters expected. Both unemployment and inflation have fallen, while real wage growth has accelerated. The statistics tell only the beginning of the promise the New Economy holds to improve the lives of the American people.

Yet if we are to seize that promise, Americans — and America — must rethink some old assumptions and meet three big challenges posed by the New Economy:

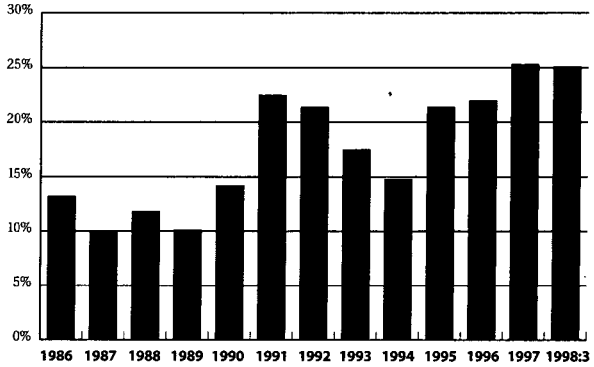
Growth

The first challenge is to put in place policies that can keep U.S. growth strong over the long run, not just for a few years. There are far too many examples of countries once regarded as paragons of economic virtue, such as Japan in the 1980's, that were brought crashing to the ground by complacency and bad decisions. We must pay attention to the basics: establishing sound macroeconomic policies and encouraging technological innovation.

As this decade began, many economists accepted as gospel the proposition that, after two decades of stagnation, America would never again be a fast-growth economy. The consensus — held by virtually all respectable forecasters — was that the United States could at best eke out two percent or 2.5 percent annual growth for the foreseeable future. Anything more was wishful thinking.

This assumption of slow growth, found in virtually every government economic projection, dictated the terms of the ongoing policy and political debates. Under this conventional view, living standards were

High-tech is driving growth...



Share of growth coming from high-tech sector over previous 12 years*

**Fourth quarter to fourth quarter, except for 1998. High-tech spending primarily includes business and consumer spending on information technology hardware and consumer spending on telephone service, adjusted for exports and imports of information technology equipment.*

Data: Commerce Department and author calculations

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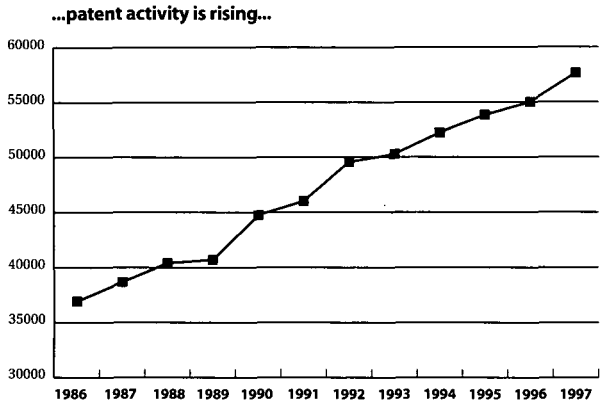

Utility patents of U.S. origin, three-year average

Data: U.S. Patent and Trademark Office

expected to rise very slowly — if at all. One example: As of the middle of 1998, Standard & Poor's DRI, a leading economic forecasting firm, was predicting that real wages would rise by a grand total of two percent over the next 10 years (based on a forecast of 2.3 percent annual growth).

This slow-growth world would have been one in which the United States would be doomed to watch younger, more vibrant economies catch up and surpass it. It would be a gray, bleak place, very different from the country's first 200 years. No wonder Americans felt despondent about their future and the future of their children.

But, while no one wants to start a premature celebration, the U.S. economy has surprised the pessimists in recent years. The strength and energy of the New Economy are directly reflected in faster growth and lower rates of inflation. What's more, this powerful performance may turn out to be more than simply a short-run phenomenon. With a combination of good luck and good policy, the United States could be in the early stages of a long period of strong growth, with annual growth of three percent or more well within reach — at least a half percentage point higher than current projections.

Such growth, if sustained, would rewrite the political and economic rule book. Rather than watching stagnation, Americans would see real wages and living standards rise for themselves and for their children. Faster growth would also mean more resources available for crucial investments in education and training. And a bigger economy would mean that the problems of financing Social Security and the retirement of the baby boomers would become much easier to solve.

To be sure, it is important to remember that even a resurgent New Economy will not mean an end to recessions and other economic ills. History shows that periods of fast growth have never been immune to downturns. Quite the contrary: The forces propelling growth — technological innovation and globalization — may well add to economic and financial volatility. To put it another way, high returns bring high risks.

Many economists have a more fundamental problem with the New Economy: They simply are not convinced that it even exists. From their offices in Wall Street firms, universities, or government buildings, these skeptics see no persuasive evidence that much has changed in the 1990's.

Yet the transformations in the economy should be obvious for all to see. Most striking are the changes

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wrought by the Information Revolution, which affects how we work, how we shop, how we play. It is especially amazing just how quickly the Internet — with its e-mail and its websites — has been incorporated into the daily thread of our lives, given that few had heard of it four years ago.

History suggests that it is exactly this sort of pervasive technological innovation that propels long-run growth. Look back a hundred years. Starting in the 1890's, the United States moved into a 70-year period of innovation-driven growth that saw living standards and incomes lifted by a series of breakthroughs, including electricity, the automobile, television, and jet travel. From the 1890's to the 1960's, real per capita income quadrupled and life expectancy soared, from under 45 years to about 70 years. The very texture of American life changed.

On the other hand, the slowdown of the 1970's and 1980's can be traced directly to a lack of economically useful technological innovations. Indeed, according to calculations by the Bureau of Labor Statistics, technological change contributed almost nothing to growth in those two decades.

But the 1990's have seen a revival of technological innovation. In part, this has manifested itself in the explosion of the information technology industry. Over the last three years, high-technology alone has accounted for fully 25 percent of growth and added about 0.7 percentage points to the overall growth rate.

In particular, biotechnology seems to be finally coming of age. The first successful gene-splicing experiment was done in 1973, but it is only now that large numbers of commercial products are finally coming

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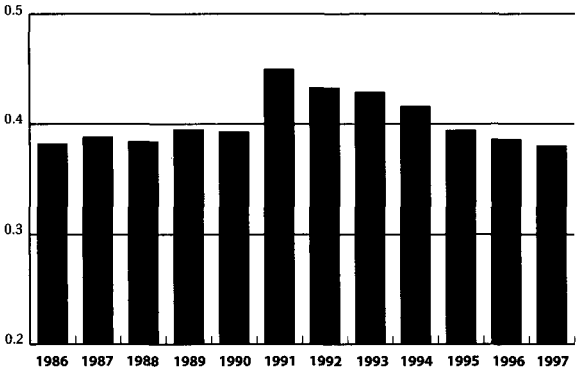
...but basic research is not keeping up.



Public and private basic research spending as share of GDP*

**Survey methodology changed in 1991*
Data: National Science Foundation

on the market. Indeed, biotech is in part riding on the shoulders of the Information Revolution. Fast computers make possible much of the sophisticated techniques underlying biotechnology, including the sequencing of the human genome.

Conversely, biotech will be an essential complement to information technology in boosting growth. Advances in computers and communications directly affect industries that move and process information, such as finance, media, and entertainment. Together these make up about one quarter of the economy. Biotech, by contrast, will transform industries such as health care and agriculture, an additional 15 percent of the economy. So just as the growth surge of the early 20th century was fueled by whole clusters of innovations — not just one — so will the New Economy be propelled by more than one major technology.

If strong economic growth is to be part of American life in the New Economy, we must continue to spur and power innovation. That is why it is so worrisome that public and private spending on basic research —which provides the foundation for future innovations — has not kept up in the 1990's with the growth of the economy (see chart above). Our first challenge must be to turn that trend around.

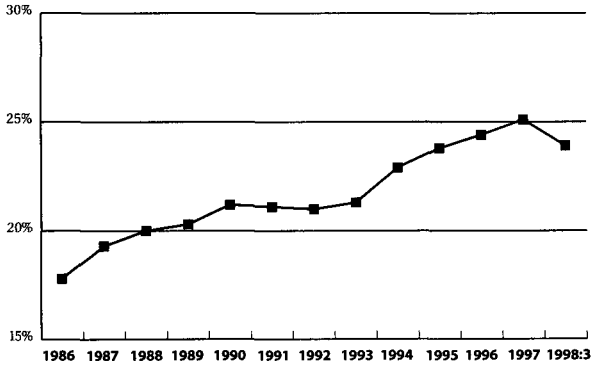
Globalization

Along with fostering economic growth at home, the United States faces the challenge of helping continue the growth of the world economy. That means reforming the global financial system to lessen the chance of a crisis like the Asian meltdown. It also means supporting pro-growth policies in developing countries and working to ensure that free trade policies are continued around the globe.

For along with technological transformation, the indisputable change in the New Economy is the United States' integration into the global economy. Since the mid 1980's, exports plus imports, as a share of the gross domestic product, have risen from 18 percent to 24 percent. Many U.S. companies now get a substantial portion of their profits from overseas. And even though exports have dropped because of the troubles overseas, they are still almost double what they were at the beginning of the 1990's.

Yet the role of globalization in the New Economy is more subtle and elusive than the impact of technology. The trade deficit does not go away in the New Economy. Indeed, in recent years, the direct effect of foreign trade on growth has been negative, as the trade deficit has widened to historic proportions. Over the last three years, foreign trade has cut

The U.S. is becoming more open...



Exports plus imports as share of GDP*

**Fourth quarter, except for 1998*
Data: Commerce Department

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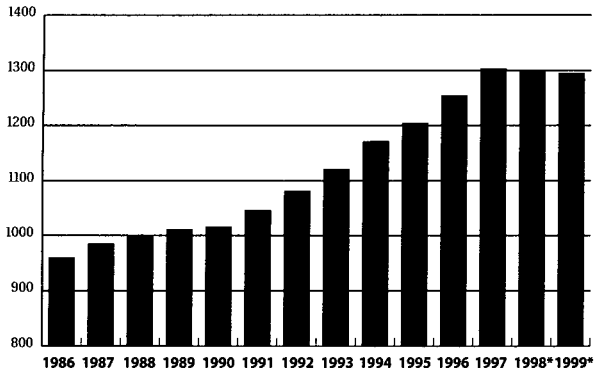
...developing countries are much better off...



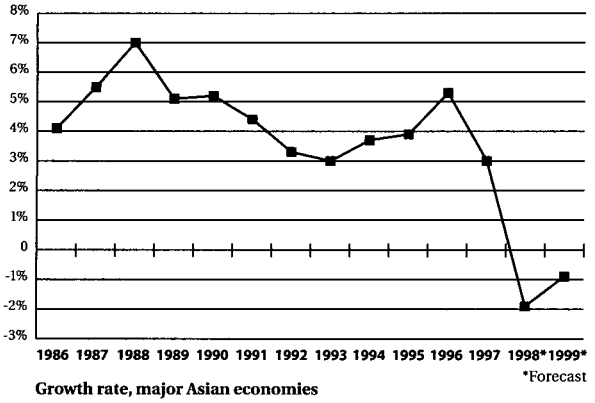
Real GDP per capita for 24 developing countries, 1995 dollars

Data: Standard and Poor's DRI

almost a half a percentage point off growth, as strong growth in the United States has kept demand high for imported consumer goods and capital equipment. Meanwhile, the depressed Asian economies are buying fewer U.S. exports.

But these narrow numbers — though easily seized upon by the opponents of trade — are misleading. For the growth numbers do not capture the impact of trade in driving the innovation and cost-cutting that have been so important in America's recent economic success. The benefits of openness come through other channels. For one, increased globalization accelerates the rate at which innovations are made and brought to market. Facing intense foreign competition, U.S. corporations are being forced to actively embrace change. In the past, many large companies intentionally slowed down the introduction of new products and innovations in order to milk additional profits from existing products. This approach worked for companies that dominated the U.S. market. Today, however, such a strategy would be suicide.

...but Asia is heading downwards.



Growth rate, major Asian economies

Data: Standard & Poor's DRI

That's the stick of globalization — but there's a carrot as well. With global markets growing ever bigger, a company that innovates successfully can reap enormous rewards. Despite the fall in Asia, real incomes in developing countries are still 50 percent higher than they were 15 years ago. As a result, U.S. companies have a far greater incentive to look for breakthroughs that can win them a profitable share of these markets.

Technology companies, in particular, thrive on large markets — the larger the better. The R&D required to create a computer chip or an airplane is enormous. The bigger the potential market is, the greater the incentive is to innovate and the more likely it is that the research will be undertaken.

And last but not least, the flow of inexpensive imports has played a major role in holding down inflation. This is, of course, a mixed blessing, as the latest surge of imports has eroded U.S. manufacturing jobs. Nevertheless, falling prices for things such as cars and clothing have benefitted many Americans.

Helping Americans Succeed in the New Economy

The third big challenge we face is helping Americans adjust to the rapid pace of change in the New Economy. Technological change and globalization boost growth, but they do so at the cost of creating enormous upheaval in the labor markets. In the first 10 months of 1998, for example, American companies announced plans to eliminate 523,000 jobs, 60 percent above the pace of the previous year. Yet during those

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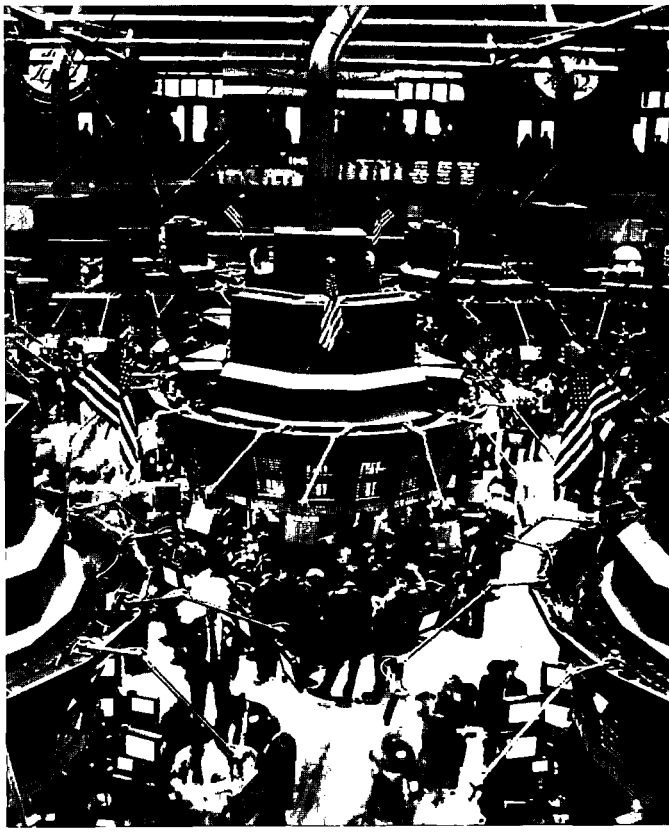
"Global trade is pouring a flood of ideas and commerce across national boundaries, helping to spur innovation."

same 10 months, 2.2 million new jobs were created overall — an example of the pluses and minuses of the New Economy.

Indeed, there is little doubt that the New Economy, if it continues, will substantially ease some of the problems that have dogged the U.S. economy for the last two decades. The most obvious gain is on the wage side: Since the last recession ended in March 1991, real wages have risen at an annual rate of 1 percent. In the expansion of the 1980's, by comparison, real wages rose at a rate of only 0.2 percent — a big difference. Incomes are rising for everyone. The government's numbers show a sharp increase in real hourly wages for production and non-supervisory workers over the last two years, helped partly by an increase in the minimum wage. The benefits are especially apparent for young people graduating from college, who are coming into a world of soaring salaries rather than dim prospects many had expected.

But the New Economy is widening the income gap by rewarding people with higher levels of education and skills. The share of personal income going to the



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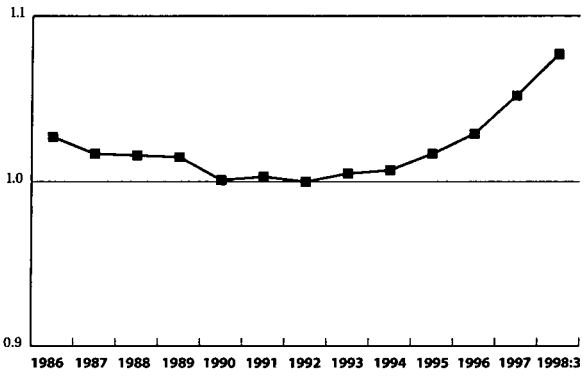
Real wages are finally rising...

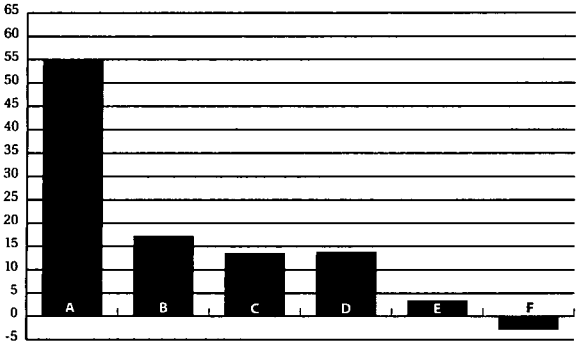


Wages and salaries, adjusted for inflation using the personal consumption price index*

**Fourth quarter, except 1998.*
Data: Bureau of Labor Statistics and Commerce Department

top 5 percent of households is still rising and is now almost 22 percent, as earnings for the best jobs and for the best educated workers continue to go up faster than for the rest of the population. Over the last year, wages and salaries for managers and executives have increased by 5.2 percent, compared to four percent for the rest of the population. Moreover, the top-tier workers are more likely to have stock options or money invested in the stock market, which means that they have reaped the gains of the stock market's rise.

...good jobs are being created...



Share of job growth over last three years

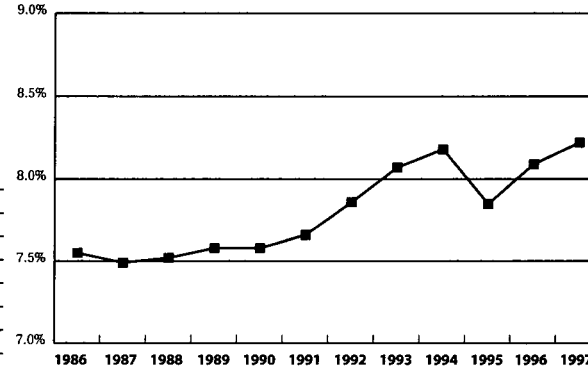
A Managerial and professional
B Technical, sales, and administrative
C Service
D Skilled production
E Less-skilled blue collar
F Farm

Data: Bureau of Labor Statistics

The U.S. cannot accept an economy divided between education haves and have-nots. Nor can workers expect a return to job stability, with corporations more willing than ever to reorganize their operations. What's needed are policies that will give all Americans the tools to find upward mobility at every stage of their lives. What's more, today's unemployment insurance safety "net" needs to be replaced with a system that will help Americans get the skills and security they need as they hop from job to job.

Perhaps the hardest task is balancing hope with realism. The U.S. economy was so sluggish for so long that many people accepted that as the norm. Now it's hard for them to realize that strong growth is possible again. But it's equally dangerous to go to the other extreme and believe that the New Economy is a panacea. The New Economy can be a time of great progress and prosperity for the American people. But it will only be so if we address the challenges it presents. That will be the major task ahead of us in the 21st century. ✧

...but the income gap is still widening.



Income ratio between top 5% of incomes and bottom 20%

Data: Census Bureau

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The Solution

If we are to seize the promise of the New Economy, we need a new agenda that is forward-looking and bold:

- Bring growth and stability to the global economy by using some of the very forces that give the New Economy its impetus — quicker flows of information and the power of the market.

- Spur economic growth through an innovation policy that invests in our future.

- Tackle the Skills Gap by giving every American the tools to get ahead.

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STABILIZING

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THE GLOBAL ECONOMY

By Robert Hormats
and Laura D'Andrea Tyson

The Case for American Leadership

For Americans, the stakes in improving the stability of the global financial system are enormous. The freer flow of private capital across national borders has facilitated a boom in international investement and the 15-fold expansion in global trade since 1945. But the growing interdependence of global financial markets has not been without downside risk. Although freer cross-border flows of capital can facilitate the more efficient allocation of savings and investment — increasing global economic growth and welfare — they can also speed the transmission of financial disturbances from country to country and expose individual countries to massive dislocations caused by large, unanticipated, and self-reinforcing flights of capital.

Although the current financial crisis has had it origins and has done most of its damage offshore, the United States has suffered from declining export markets, greater financial market volatility, and reduced risk capital availability. As we move into the 21st century, the problems of emerging market economies can quickly become the problems of American workers, businesses, and investors.

Robert Hormats is Vice Chairman of Goldman, Sachs (International). He is a former Assistant Secretary of State for Economic and Business Affairs and former Deputy U.S. Trade Representative. Laura D'Andrea Tyson is Dean of the Haas School of Business at the University of California at Berkeley. During President Clinton's first term, she served as Chair of the Council of Economic Advisers and National Economic Advisor.

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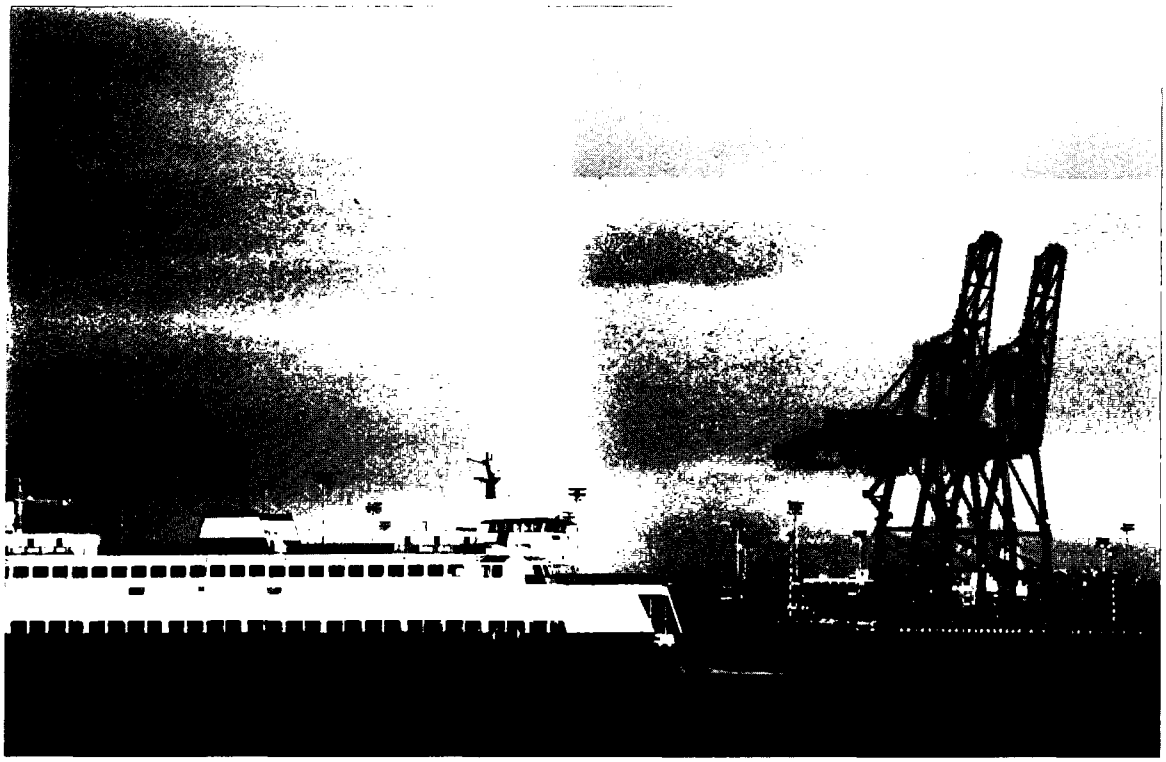

Either we find ways to make markets work better or others will rewrite the rules, undermine the international financial system, and weaken the benefits it can provide. In short, if for no other reason than economic and political self-interest, the United States must lead the world in efforts to achieve sustained growth and stability in the international system and to prevent similar crises from erupting in the future.

We believe that U.S. leadership in the creation of a more stable and prosperous global economic order is indispensable. In the aftermath of World War II, the United States generously devoted both its resources and its leadership to rebuilding its war-devastated allies and enemies in Europe and Asia. We led in the creation of multilateral economic institutions — including the General Agreement on Trade and Tariffs, the World Bank, and the International Monetary Fund — that have provided the foundation for 50 years of unprecedented global growth and stability.

In the ensuing years, the global economic system has changed profoundly as a result of technological breakthroughs in transportation and communication, successive rounds of trade liberalization, the end of the Cold War, and the embrace of markets by a growing number of nations. In responce to these profound changes, the world community, led once again by the United States, has embarked on the task of modernizing the multilateral system to reflect the new dynamics of the global economy. Substantial progress has been achieved on the trade front with the completion of the Uruguay Round, the introduction of the World Trade Organization, and regional groups such as NAFTA and APEC.

The challenge facing individual countries and the global system now is to design policies and institutions that maintain the immense growth benefits provided to all participants by broad, active, and open financial markets while at the same time mitigating the negative effects on growth and employment of their recurrent — and, to a significant extent, inevitable — volatility. The American economy is the envy of the world in part because it has designed the regulatory structures — including laws, accounting

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and reporting practices, supervisory guidelines for financial institutions, and an independent central bank — that are essential to the smooth operation of an open, transparent market system. The question now before us is: What lessons can the United States and the other advanced market economies share with the emerging market economies and the global system as a whole?

In this present moment of global uncertainty, some have been quick to advocate a "global New Deal" — the formation of a whole new set of multilateral institutions patterned on the key financial, regulatory, and legal institutions that have improved made domestic economic stability in the United States and other advanced industrial countries. But a careful examination of these institutions suggests that they are not likely to be replicated internationally in the foreseeable future. Even if it were economically desirable to do so, which is highly debatable, the idea of creating a global central bank — an international version of the Federal Reserve — is hardly likely to receive political support from the United States or the other G-7 nations any time soon. A worldwide Securities and Exchange Commission or a common international bankruptcy law is also impractical given the huge disparities in national legal, accounting, and regulatory standards.

At the same time, others argue that international markets should be left alone, to fail or succeed as they will. Indeed, some have even gone so far as to argue that the *existing* multilateral institutions, especially the International Monetary Fund (IMF), have actually made the global system more crisis-prone. There is no factual basis for such an assertion. Indeed, the empirical evidence strongly supports the conclusion that these institutions — despite their imperfections — have helped to contain the adverse effects of macroeconomic and financial shocks on economic growth in individual countries to the benefit of the global system during the last 50 years.

Neither creating broad new multilateral institutions nor returning to the laissez-faire policies that characterized the global economy during the first half of this century will increase growth and stability in the global financial system. What is needed is a set of "third way" reforms that expand market opportunities, build on peer review and the free exchange of information, and encourage national entities to monitor one another.

In lieu of top-down regulatory strategies, these market-driven reforms would rely heavily on cooperation among national authorities and institutions to solve particualr cross-border problems while continuing to reflect diverse national interests. Such transgovernmental cooperation would be enhanced by new communications technologies that allow groups of experts to exchange detailed information and evaluate one anothers' performance, without leaving their home offices.

Enhancing International Economic Stability

The market-driven approach we propose rests on four fundamental principles:

1) The United States should take a leadership role in creating new forums for transgovernmental cooperation to address global needs. As the most successful economy in the world, the U.S. should provide both money and manpower to promote such efforts.

2) Although we believe that the United States must lead, we do not believe that American leadership involves imposing a uniform "American" model on other countries. Positive adjustments in the international economic system can be achieved in ways that respect national sovereignty and regional cultural differences.

3) Without sound domestic economic policies, robust banking systems, effective regulation and supervision, and well-functioning legal systems in

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nations around the world, sweeping changes in the structure of international institutions will do little good. *With* sound domestic policies and practices, a few well designed modifications of the international system can produce important benefits.

4) With appropriate modifications, the International Monetary Fund and the World Bank should continue to play critical roles in fostering global economic stability, capital flows, adequate liquidity, and prosperity. As part of its leadership responsibility, the United States must continue to support these institutions and to cooperate with other members in reforming and modernizing them.

We believe that proposed reforms of the global economic system should be judged on the basis of four major tests:

1) Do they strengthen the domestic capabilities of countries to foster stable growth while coping with dramatic and ongoing changes in the international economy?

2) Are they proactive, anticipating and averting the kinds of rapid withdrawal of capital and confidence that we have seen recently, or are they reactive, thereby rendering countries more vulnerable to such crises?

3) Do they incorporate the private sector to a greater degree in helping to fashion the policies and arrangements that will ensure steady flows of productive capital and avoid the losses of confidence that render countries vulnerable to capital market turbulence?

4) Do they take full advantage of cooperation among national authorities in industrialized and emerging economies to improve domestic practices, limiting the role of global economic institutions to those functions that other groups cannot perform?

An Agenda for Global Growth

To lay the groundwork for a new century of robust global economic growth and prosperity, America should lead the world in undertaking six basic institutional and policy changes in industrial and emerging economies and in the global economic system.

1) Promote sound domestic macroeconomic policy by:
- creating a regularized dialogue between emerging and industrialized countries in which financial and central bank officials critique one another's policies; and
- creating a set of common standards for participation in the highly sensitive global financial system.

Establish a forum that would bring emerging and industrialized countries together to promote sound domestic macroeconomic policies.
Maintaining a sound macroeconomic environment is the joint responsibility of fiscal policy (typically controlled by the executive and legislative branches of government) and monetary policy (the responsibility

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of the central banks). Except in rare instances in which nations have created common institutions like the European Central Bank, national parliaments and central banks have jealously guarded control over macroeconomic policies. But a great deal can be done internationally to reinforce the right kinds of macro-polices or at least to point out the dangers of the wrong ones. The IMF has a Code of Good Practices on Fiscal Transparency and is working on a Code of Conduct on Monetary and Financial Policy. Missing is a regularized policy dialogue between emerging and industrialized countries in which financial and central bank officials could critique one another's policies. Industrialized countries currently do this through the Organization for Economic Cooperation and Development. Now a broader forum is necessary to tackle critically important topics such as avoiding misalignments and excessive volatility in exchange rates and ways for national currency regimes to reinforce — and be reinforced by — sound macroeconomic policies.

Create regularized country-by-country dialogues between officials of emerging market economies and representatives of the private financial community. In these countries, financial stability and growth depend on the resources and the confidence of international investors. Governments can receive valuable feedback from the financial community through dialogue with key private participants: banks, investors, hedge funds, and mutual funds. Governments would hear about market concerns over problems (such as widening budget deficits or growing short-term debt exposure) before they lead to massive private sector withdrawal of funds. And governments could receive suggestions on ways to attract more stable flows. As a result of regular dialogue, investors would become more familiar with government policies and less likely to base decisions on false information.

Develop common standards and best practices of disclosure and reporting by governments, banks, and corporations that would make financial information more reliable, easier to interpret, and more timely. Such standards of participation should include those relating to supervision, regulation, accounting, and reporting of private as well as public economic entities. Over time countries should see the competitive advantages of conveying timely and credible information. And the global system would benefit from collective improvements. Peer pressure coupled with institutional encouragement and technical support could make an enormous difference in advancing greater economic transparency.

2) Promote robust national banking systems by:
- establishing a system of peer review among national and international financial supervisors; and
- strengthening disincentives to high risk short-term lending and borrowing.

Good macro-policies are necessary but not sufficient to produce economic growth and to avoid vulnerability to financial crisis. Before the onset of the global financial crisis, macroeconomic policy was in good order in much of Asia, but banks, regulations, and supervision were generally weak. In the summer of 1997, the central bank of Thailand was discouraged from raising interest rates to avert a currency collapse by private banks that feared higher rates would damage their already weak balance sheets. Weak banking systems can both create and exacerbate financial shocks that dry up credit to sound companies, greatly damaging economies otherwise following reasonable policies.

Introduce a peer review process among national and international banking supervisors. In October of 1998, the Group of Seven finance ministers agreed on the necessity of better surveillance of national financial systems and their regulatory and supervisory regimes. Canadian Finance Minister Paul Martin proposed peer reviews by national and international supervisors. This innovative idea avoids the elaborate process of establishing an overarching international supervisory bureaucracy. Instead, international institutions and government authorities would work together to avert instability

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in national financial systems and to avoid systemic risk of cross-border contagion among nations. Possibilities for carefully structured supervisory measures to temper buildups in short-term currency debt should be a prime topic.

Strengthen the Bank for International Settlements' disincentives to high risk short-term lending by applying a higher "risk weighting" factor to such loans. Currently, the Bank for International Settlements' standards provide an incentive for short-term versus long-term loans. These should be revised. New standards should be produced to create disincentives for banks in emerging economics to become vulnerable to mismatches in the maturity and currency exposure of their assets and liabilities.

Provide international guidance and support for emerging economies to create deposit insurance schemes that could help restore confidence in their banking systems.
Deposit insurance is an important component of banking sector stability in industrialized economies. Clearly defined depositor guarantees have been critical in avoiding the runs on banks that the United States experienced in earlier times and that plague many emerging economies today. The types of claims covered by deposit insurance must be clearly demarcated to avoid moral hazard and confusion during crisis situations.

3) Promote sound capital markets by:
- establishing common international principles for securities regulation and a core set of accounting standards for cross-border securities offerings.

One reason the banking crisis has hit many emerging economies so hard is that their capital markets are relatively underdeveloped; hence, these economies rely mostly on banks as the major source of credit. Better developed long-term bond and equity markets can be a stabilizing factor — channeling savings into longer-term financial instruments and more productive uses. Such markets, however, require a sound legal and regulatory underpinning plus high accounting standards.

Encourage and promote the work already under way to establish common international principles for securities regulation and a core set of accounting standards for cross-border securities offerings.
In both cases, the task is to help emerging economies establish or strengthen their own systems and practices consistent with the requirements of a more demanding global financial market. Both efforts would be enhanced by encouraging more companies in emerging economies to list their shares on the capital markets of the advanced industrial countries. This in turn would require these companies to meet the tough listing regulations and accounting requirements of such markets and give them positive feedback on how to enhance the use of such standards at home. In the United States, the Securities and Exchange Commission (SEC) has contributed enormously to the quality and expansion of capital markets, permitting them to serve as the major source of capital for growth and to foster improvements in corporate governance. The SEC and its sister organizations in other industrialized countries could play a mentor role to their counterparts around the world.

4) Reinforce the effective rule of law, including a well-functioning bankruptcy system, by:
- establishing a system of peer review of national corporate and bankruptcy laws.

A comprehensive and clearly understood system of corporate law is vital to a well-functioning economy and to integration into the international financial system. Without well-defined personal, corporate, and intellectual property rights, stable flows of capital will be hard to attract and hold. Peer review of national corporate and bankruptcy laws by transgovernmental groups of experts can avoid the fruitless process of trying to develop a common international body of law, while still fostering a higher level and quality of national convergence.

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Reform national bankruptcy laws so that they avoid premature dismemberment of a debtor's assets and provide adequate time for a debtor to determine alternatives, while assuring fair treatment to various categories of creditors.
If national bankruptcy laws were more effective, financial problems in a few banks and corporations would be less likely to cause a sharp drop in market confidence in an entire country. Insolvent banks or companies could be dealt with one-by-one in a pre-established legal framework. A sound bankruptcy law regime should also permit debtors to realize as much of the value of their assets as possible by sale or reorganization, thereby avoiding closure of entire companies or banks unless absolutely necessary.

Mobilize a "Workout Peace Corps" of public and private experts to assist in debt workouts in affected countries and to build local institutional expertise in those countries.
These experts — perhaps culled in part from the ranks of those who gained experience during the U.S. savings and loan crisis — could be mobilized by the U.S. Treasury. They would assist the many countries in which sufficient expertise does not exist to process huge numbers of bankruptcy cases or to dispose of the tens of thousands of bad loans now on the books of banks or of governments that have assumed such loans from private actors.

5) Develop adequate safety nets by:
- helping individual countries create effective safety net policies; and
- creating contingency pools of funds and stocks of essential items like foodstuffs that could bolster national safety nets in times of crisis.

Establish safety net programs in the emerging market economies to help those citizens most adversely affected by cyclical downturns.
Safety nets barely exist in many emerging countries. In the absence of unemployment insurance, food assistance or other kinds of welfare, extended families have supported jobless or displaced workers. In a world more prone to crisis, the World Bank has assigned high priority to making sure nations are equipped to meet the basic needs of citizens affected by economic downturns. Such programs can also help sustain political support for the restrictive fiscal and monetary policies sometimes needed to cope with a financial crisis and to reduce political pressure for trade or capital restrictions during difficult times.

Create contingency pools of funds and stocks of essential food for humanitarian assistance to bolster domestic safety nets in times of crisis.
This effort should be lead by the World Bank and IMF, along with groups like the World Food Organization and World Health Organization. To some extent, such temporary crisis assistance is available now on an ad hoc basis, but a more comprehensive, systematic, and reliable approach to provide funds, foods, and medicine would strengthen the world's ability to address the human needs of people harmed by a global financial crisis.

6) Create a crisis avoidance lending facility in the International Monetary Fund.

Central banks play a critical stabilizing role as lenders of last resort to their banking system. No such capability exists internationally as there is no global central bank, and the IMF currently does not have the funds or the mandate to perform this role. At the moment, the IMF doles out its financial support gradually, but this approach is not the formula for stemming a panic withdrawal of funds from a country. A true lender of last resort needs large sums of money to dispense promptly in time of crisis and a process of pre-certification so that a country in need can have access to such funds quickly.

The G-7 has recently proposed a step in this direction by giving the IMF some new tools to provide liquidity and head off a crisis. The G-7 proposal calls for the "establishment of an enhanced IMF facility which would provide a contingent short-term line of credit for countries pursuing strong IMF approved

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polices. The facility could be drawn upon in times of need and would entail appropriate interest rates along with shorter maturities." This proposal has the attributes of being proactive — aiming to anticipate problems before they occur — and of strengthening domestic policies that avoid vulnerability to crisis. In addition, the proposal calls for "appropriate private sector involvement." This should provide the private sector with a say in determining the criteria for country eligibility to draw on the facility and will involve it more actively with the IMF and potentially eligible countries in shaping and analyzing policy.

But this proposal also raises many critical questions including: which nations should get these funds, when they should receive them, what criteria would be considered for qualification, and what effects such decisions would have on economic stability. The IMF, working with the G-7, will have to quickly come up with explicit criteria for implementing the contingency fund proposal quickly, or the proposal will raise a number of fresh concerns about the IMF having too much authority and too little transparency in its exercise.

Conclusion

We believe these steps can be taken with U.S. leadership. By working to develop best practices, common understandings, and contingency policies, individual countries can cooperate to build a solid institutional and policy foundation for greater stability in global financial markets. As the undisputed global economic and political power, the United States has both the responsibility and the self-interest to lead this process and pave the way for another half century of growing economic interdependence and prosperity. ✧

Trade Is Changing in the New Economy— Can Government Keep Up?

By Edith R. Wilson

Trade is a policy area strongly rooted in the Industrial Age economy. Many of its key legal concepts, processes and structures — be they customs operations, anti-dumping laws or tariff rate negotiations — stem from an era when governments focused on expanding (or restricting) the physical transport of manufacturing goods and raw commodities from one market to another. But new global information and telecommunications technologies mean that trade is changing in this new global economy. Technology, globalization and market openings are changing *who* can trade, *how much* we trade, *what* we trade, and *how* we trade. Among its other attributes, the New Economy is a trading economy — a global marketplace where more firms sell more products and services to more countries more quickly and easily than ever before. The following four new realities emerging in world trade will require governments to adjust a wide variety of policies and practices.

The center of trade politics is shifting from Wall Street to Main Street.

Trade is no longer the exclusive preserve of multinational firms; it is becoming a normal part of business for small and midsize companies. Lower transaction costs, simpler and more comprehensive trading rules, expanded financing and credit, easier transport, improved telecommunications, and e-mail are just a few of the reasons for growing participation. The growth of the Internet — which democratizes access to market and government data — and of electronic commerce will only accelerate this trend.

Twenty-first century trading will involve more sectors and will be carried out from many more locations.

Until now, trade has been an exceptional activity requiring the exporter to have exceptional skills and effort. What's surprising is how little the United States trades with most nations, not how much. Two-thirds of U.S. exporters trade with fewer than five countries. But the largest firms export to 10 or more countries. Even now, most U.S. or European trade takes place with neighbors and other rich markets. But in the future trade will involve many more sectors. It will build on the traditional base of food, fuel and manufactures to encompass exports of many more kinds of products to many more countries. Adding to this trend is the tendency of companies (in, for example, technology or software) to seek foreign markets early in product life cycles, instead of waiting until the home market is saturated, as in the past. These new flows will sorely test transportation, customs, and regulatory agencies.

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The technological and services revolutions have set off an explosion in the varieties of international commerce.

Once we traded physical goods; now we trade goods and services, and very soon we will actively trade bits of information that pass continuously through the Internet. The emerging digitalization of the economy will accelerate this trend. Modernizing government processes of all kinds is an urgent priority. Innovation in delivery and transportation threatens to render customs operations obsolete. The measurement of trade is a mess. Today, statistical services in the United States are still set up to count physical goods moving by truck, ship and rail, reflecting again trade's industrial era roots. Goods moving by air are rarely counted, even though they include most high value, high-technology exports. Measurement of fast growing areas of trade such as services or electronic commerce is at best crude. This helps explain why a Commerce Department statistician estimated in 1997 that U.S. exports were undercounted by one-third.

The era of the tariff barrier is by no means over, but the era of the non-tariff barrier has just begun.

The lines between capital, finance, trade, and investment are increasingly blurred. Twentieth-century trade negotiations have focused on reducing tariffs and import quotas. In a global economy in which services and intellectual products are an ever-increasing proportion of world output, facilitating transactions in and lowering regulatory barriers to such products requires much broader commercial agreements. The 1994 GATT covered tariffs, non-tariff measures, rules, services, intellectual property, textiles, agriculture, and dispute settlement; NAFTA included much of this as well as transparency, the right to appeal government decisions, public access to information, the environment, and worker safety. Future multilateral trade agreements will be ever more complex and comprehensive. The broader the agreement, however, the more political actors will be involved in the negotiation and the more difficult it will be to come to closure. This will be particularly true for the United States, given the highly polarized state of its trade politics. These new kinds of agreements are uncharted waters for political leaders.

Mired in the Past or Prepared for the Future

Trade and investment rules will be the software of international commerce in the 21st century, providing the legal infrastructure that allows goods, services and investment to get to foreign markets easily and efficiently. New economic conditions demand new public responses. Yet old issues and disputes dominate trade policy discussions. A wise man said that protectionism never goes away, it just mutates in every generation. Understanding the emerging, radically different patterns of global trade and commerce will reveal new requirements, opportunities, and barriers that must be tackled through multilateral action.

Here are some guidelines for U.S. trade policy as the new economy grows. The United States must:

- Think holistically about international economic policy and demand coordination between finance, development, and trade policymaking bodies such as the International Monetary Fund, the World Bank, and the World Trade Organization.
- Adapt trade and investment policies, institutions, data collection, and mindset to the Information Age. Use the Internet to make transparency (public access to information) operate in real time for governments, international organizations, and firms.
- Prepare now for the democratization of trade. Having more trade participants will require increased capacity and infrastructure at all levels — roads, ports, airports, telephones, commerce offices, and Internet sites.
- Practice the politics of inclusion, not exclusion, at the WTO, finding forums for civil society to contribute and be heard.
- Be creative and diligent in addressing emerging issues such as environmental and labor standards.
- Build new political coalitions because the old ones don't work anymore. Reach out to new industries, such as high-technology and biotechnology industries, and to new allies such as market-based environmentalists.
- Develop harmonized or common, performance-based standards for goods and services. This will do more than many proposed negotiations to facilitate expanded trade.
- Develop international regulation with care to avoid crushing innovation and growth, particularly in areas such as the Internet.
- Build social safety nets in emerging economies and adapt the social contracts of workers in richer nations.

The conveners of the Bretton Woods Conference in 1944 were also the organizers of the General Agreement on Tarrifs and Trade in 1948. The system of market liberalizing rules embedded in the GATT and now the WTO serves as a bulwark against a return to a 1930s-style world depression just as surely as does the liquidity provided by the International Monetary Fund. Consider for a moment what would have happened if the 1997 Asian economic crisis had begun before the historic market-opening, tariff-cutting agreements of the 1994 Uruguay Round. By joining the WTO, modern nations have limited the possibility of using trade measures as excessive reaction to economic downturns.

We cannot, however, rest on the achievements of the Uruguay Round or give way to the political gloom produced by the second failure of fast track renewal. The United States must lead in a new round of WTO negotiations designed to reduce barriers and lay the ground for further strong economic growth. But we must do more than that. We must reinvent the rules and processes of international trade to reflect the democratization, pervasiveness, diversification, and broadening that is transforming it. These are all manifestations of the New Economy. The ability to continue to raise living standards in the United States and around the world will be the reward for the hard work ahead. ✧

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IDEAS

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INNOVATION:

The New Pump of Growth

by Paul Romer

Sustained economic growth is central to all of our ambitions for the United States in the next century. We know from looking back in our history that economic growth comes from effectively linking the twin powers of the competitive market and the scientific method. One of the reasons we are now enjoying the benefits of the information technology revolution is that the federal government created the academic discipline of computer science more than four decades ago. When people in 2030 look back on this era, will they be able to identify similarly bold steps taken in the 1990s? As we move into the next century, the challenge before us is to make the kinds of investments in science and technology that will contribute most effectively to economic growth.

Many people take it for granted that the institutions of the market and of science will automatically lead to economic growth that will raise standards of living for each generation. However, the power of the marketplace and the scientific method operate according to different logics. It is not a simple matter to ensure that they will work well together. As the economic environment evolves and as the scientific and technological frontier shifts, our institutions may need to change to keep up. What worked in the past may not work in the future. And yet a look at the past yields several interesting insights about economic growth and scientific and technological change.

The average income for citizens of Britain and the United States from 1870 to 1994 is seen in Figure 1. This measure of income has already taken out the effects of inflation. In both countries, income is measured in terms of the purchasing power of 1990 U.S. dollars. There are two striking features in this data. The first is the magnitude of the increase in economic resources. In 1870, average income per person in the United States was about $2,500. This means that if all the income of the day had been divided equally between the citizens of the day, every family would have been below what we now consider the poverty line. By 1994, average income per person had increased to about $22,500, a nine-fold increase.

Everything we know about history, technology, and economic theory tells us that an increase of this magnitude would not have been possible in the absence of technological change. We did not increase income per person by a factor of nine by accumulating more ox carts and water-driven mills.

On the other hand, we can't assume that the institutions of science by themselves can explain this increase. At one time, policy-makers believed in what has come to be called the linear model of technological change. According to this model, researchers engage in basic science work at the beginning of the innovation "assembly line." They make fundamental discoveries about the nature of the physical world and pass them on to applied scientists, who work out some of the practical implications of these discoveries. At the tail end, engineers and designers convert the insights from the applied scientists into products that enter the market and spur economic growth.

If this model were correct, physicists would have developed the basic science of thermodynamics and used it to show that, in principle, heat could be converted into motion. Applied scientists would then have used the laws of thermodynamics to highlight the factors that determined the efficiency of this

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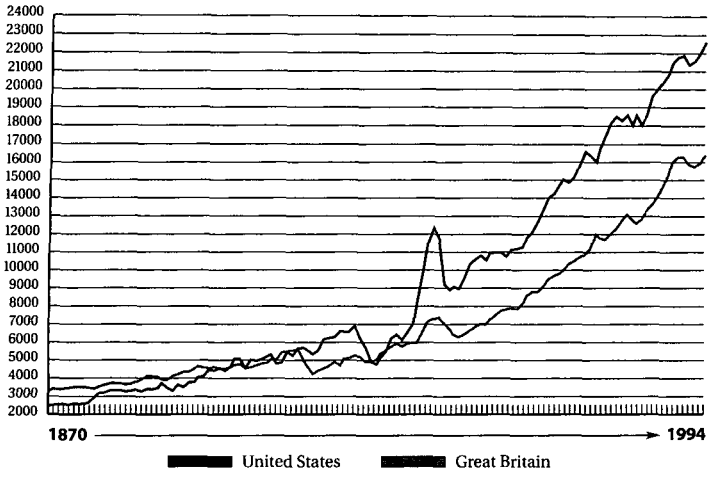
Figure 1. Economic Growth



Average income in 1990 dollars

conversion process. Engineers and product designers would have used these results to develop practical devices like the steam engine. In fact, the sequence was precisely the reverse. The people facing practical problems in the marketplace developed the steam engine first. As they studied the efficiency of different engines, they uncovered basic principles. These eventually lead to the development of the basic science of thermodynamics.

One must therefore be careful in interpreting the dramatic economic successes of the last 125 years. It is true that technological change drove the gains. Institutions like the modern research university encouraged faster technological change. So too did the market. Interaction between the practical problems faced by people operating in the market and the problem-solving skills developed in the university led to important inventions and faster economic growth. This interaction also fostered better science, even better *basic* science, than would have been possible if the institutions of science and technology had been decoupled from the market or had worked at the beginning of an assembly line with no feedback from the other end. It took the combined forces of the competitive market and the scientific method to sustain the process of economic growth illustrated in the graph.

Thus any proposal for sustaining or increasing the rate of growth must take careful account of these interactions and must not treat science as if it operated in isolation. In particular, we must not presume that devoting more resources to the basic research end of the process will automatically lead to economic gains.

The chart also reveals a second striking fact: that an early position of leadership in science, technology, and economic productivity can be lost. In 1870,

A 21st Century Growth Agenda

by Andrei Cherny

The primary building block in making the New Economy work for ordinary Americans must be strong economic growth. As Professor Paul Romer points out in his incisive analysis, this economic growth depends on encouraging innovation. For ideas build upon one another — and each new invention, development, or discovery leads to new avenues of exploration. Innovation is about much more than new technologies and computer start-ups, it must be a way of life for every sector of our economy if we are to have the rates of growth needed to lift the standard-of-living for average Americans in the 21st century.

To help foster the economic growth that would boost the prospects of ordinary citizens in the New Economy, we need an Information Age growth agenda. This agenda should include these three ideas:

First, maintain a sound fiscal policy. **The primary purpose of fiscal policy must be to lay the foundation of economic growth. In the 21st century, this means a proactive agenda that builds on our present success.**

For six years, America has done the hard work of tightening its belt and balancing its books after decades of runaway spending. Now that we are enjoying the fruits of that achievement — in the form of the economic success produced by lower interest rates — we cannot succumb to the temptation to go back to the bad old days. We must continue to rein in the Right's wild-eyed promises of massive, budget-busting tax cuts as well as the Left's attempt to start spending money like drunken sailors. The present surplus should be primarily used for three purposes: (1) to reform our outdated entitlement systems before they throw

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Britain was the worldwide leader in the high-technology industries of the day. Its leadership in the early stages of the Industrial Revolution gave its citizens a significantly higher standard of living than enjoyed in the United States or any other large country in the world. But over the next 125 years, income per capita grew in Britain at a rate that was slightly smaller, just one half of one percentage point per year, than the rate in the United States. Because of the power of compound rates of growth, this seemingly small difference had a dramatic effect. In 1870, average income per person was 1.3 times larger in Britain than in the United States. By 1994, it was only 0.72 times as large. Stating the final difference in dollars makes this reversal all the more stunning. In 1994, income per person in the United States was about $6,000 higher than it was in Britain. That means that for every man, woman, and child in the United States, we now produce an additional $6,000 in resources each year. These are resources that we would not have if we had merely caught up and kept up with the British. Fortunately for all of us, policy-makers here did better.

Applied vs. Basic Research

Recent political debate about science policy has produced two camps. Activists support a government-led industrial policy, and minimalists support government involvement only for basic research. This polarized debate obscures the fact that there is broad common ground that can command wide support.

As we look back through history, we can identify many changes to our institutions of science and technology that clearly had a positive effect on the economy. Often this came when policies prodded innovation by investing in the skills and talents of people. Examples of this type would include the founding of the land grant universities, the creation of chemical engineering and computer science, government support for biomedical research, and support for university-based research provided by the Semiconductor Research Corporation. All these programs encouraged basic research, at least incidentally, but all of them affected economic activity through channels other than research papers or university-based patents. Most importantly, each of them trained people who could use the current stock of knowledge in the private sector. In effect, these

our budget back into the red, (2) to pay down our national debt, and (3) to reinvest the "profits" America's economic boom into the ingredients that created it in the first place: the skills of the American people and the forces of innovation.

Second, de-subsidize the old economy and use the proceeds to invest in the New Economy — spurring economic growth by curtailing the subsidies that inhibit competitiveness and innovation and freeing resources for the investments that foster them. **The first part of this growth agenda could be called a budgetary Hippocratic Oath: first, do no harm. This second part could be called a Hypocritical Oath: practice what you preach. For Democrats it means taking on — in a serious way — the rich and powerful interests that use public funds for their private gain. For Republicans, it means untying the "invisible hand" they extol — and letting market forces do their work.**

As Robert Shapiro, former Vice President of the Progressive Policy Institute and current Under Secretary of Commerce, has pointed out, our budget is saturated with scores of tax and spending subsidies that have been placed there by powerful old-line industries. These giveaways take hard-earned tax dollars which should go to public investment and use them for the private benefit of big corporations.

The special tax breaks clog up our tax code and make it a complicated nightmare for too many citizens and small business owners. They not only force middle class Americans to pay higher taxes, they undermine the already tenuous faith of citizens in the fairness of the tax system.

These tax and spending boondoggles are more than unfair, they slow down economic growth in two major ways. First, they create an unfair advantage for certain firms and sectors by insulating them from the forces of competition and the need to innovate.

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programs subsidized private sector research by expanding the supply of highly skilled scientists and engineers who could work in the private sector. With the possible exception of biomedical research funded by the National Institutes of Health, all of these programs were explicitly designed with this goal in mind. And although the supporters of biomedical research may not have intended to subsidize the training of people who would ultimately work in private industry, that research also has had this effect. For example, we have now seen many important cases in which professors have used their knowledge from many years of government-supported research to develop commercial products, often in new start-up firms.

What Next?

From these historical examples we can see that, in principle, public funds can speed technological change and economic growth. These growth opportunities go beyond simply supporting the kind of basic science that gets published in scholarly journals.

On the other hand, some types of government support have such bad track records that chances are slim for building a broad political consensus in their support. These are the kinds of government initiatives that supporters of the minimalist position point to when they claim that government programs fail. A wealth of examples of programs that did not achieve their goals can be found among the assorted collection of large-scale, government-sponsored demonstration and commercialization projects. Typical examples of failures in this area include the supersonic transport program, the Clinch River Breeder reactor, the synthetic fuels program, and the effort to develop the space shuttle as a low-cost launch system for commercial satellites. As others have documented, these kinds of programs tend not to achieve their economic goals because the political process that initiates and guides them is too rigid and inflexible. The political process also fails to be sufficiently sensitive to the economic, as opposed to technological, viability of the systems being developed.

The dangers of adopting such programs can be seen not only in the ones that were adopted and failed, but in the ones that were never initiated in the first place. Several recent proposals that were not adopted seem suspect. For example, in the 1980's, a variety of government programs were proposed to

Second, they prevent America from having the funds necessary to invest in the future. Writer Jonathan Rauch calls this problem "demosclerosis" — the lining of the arteries of our democracy with special-interest subsidies that inhibit the flow of public action.

Unfortunately and sadly, our political process has proven itself incapable of taking meaningful steps to eliminate these handouts. To break the stranglehold of the special interests, a Commission on Special Subsidies and National Growth — modeled on the Military Base Closing Commission — is needed to systematically evaluate all industry-specific programs and recommend the repeal or reform of those tax breaks and subsidies that serve no overriding social or national purpose. Congress would then have to take the Commission's recommendations and vote them up or down — with no amendments.

This would help unleash the tethers holding back economic growth. But, to help give impetus to that growth, the savings that Congress finds through the Commission should then be used to fund research, development, exploration, and innovation — the investment needed to power the New Economy.

Each dollar of federal basic research leverages an estimated $3 of private investment in the elements of economic growth. Yet, today civilian research is half — as a percentage of the gross domestic product — of what it was in the 1960's, the golden age of federal research that gave birth to the entire field of computer science. In the New Economy, it should be the goal of the United States to, at the very least, return to that level of funding in basic research — a doubling of the present levels of investment.

This is especially true at a time when the budget for military research and development is in a period of decline. If civilian R&D does not pick up the slack, then it is the American people who will suffer in the form of the slower growth rates and dimmer economic prospects.

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protect the U.S. lead in the production of DRAMs — the basic memory chip used in computers. Supporters of a high-technology industrial policy also proposed a government-funded program to develop an analog system for high definition television (HDTV) broadcasts. In retrospect, it is clear that pressures for new initiatives on both of these fronts came at a time of perceived crisis which subsequently proved to be unfounded. Production of DRAMs did not turn out to be lucrative in its own right or pivotal to success in other parts of the semiconductor industry. Analog HDTV was quickly surpassed by the digital systems that were developed without extensive government support and that are now ready for deployment.

All these programs, the ones that were adopted and the ones that were not, differed from the successful programs not so much in that their focus was on applied rather than basic research. The more striking difference is between programs that subsidize the production of inputs that go into the research process and programs that subsidize specific outputs from the research process. The antiquated debates about science policy don't provide many useful cues about what should be done next. As it turns out, the creation of human capital — highly trained scientists and engineers who go on to create wealth in new industries — is probably one of the most valuable results of all of our science- and technology-related spending.

Conclusion

The institutions of science and technology — and the innovation they create — have in the past, and should in the future, generate large increases in economic growth for all members of society to share. In this century, the institutions of the market and of science and technology combined to dramatically improve the quality of life for all members of society. However, the experience in Britain shows us that continued rapid economic growth is not guaranteed. Yet, nor is it the result of chance. We can identify important policies that accelerate the pace of scientific, technological, and economic progress in the United States. If we had the decisions to make all over again, there would be broad political support for implementing these programs once again. If we can more beyond narrow political debates about science and technology policy — and identify the features that distinguish successful initiatives from failures — we should be able to agree on a new generation of proposals that can lift the nation to new heights in the next century.✧

Third, modernize our patent system for the 21st century so that it is streamlined, effective, and fair. **In this age of innovation, imitation is no longer the sincerest form of flattery — it is a dagger pointed at the very heart of America's economic growth and dynamism. Inventors and researchers, upon whose shoulders so much of our economic future rests, will be much less likely to do their important work if the fruits of their labor are not protected.**

The number of patents issued per year has almost doubled since 1983. But America is still burdened by a machine age patent office that simply can't keep up with the New Economy. At a time when successive generations of technology overtake each other almost continually, the snail-paced system of patent processing sometimes takes 15 years or more. If economic growth is to continue, the Patent and Trademark Office should be reinvented to work more efficiently, more openly, and in a way that rewards inventors — not patent speculators. Legislation to this effect has been languishing in Congress for two years. It should be passed now.

Economic growth is not an end in and of itself. It is, however, a prerequisite in giving Americans a shot at a brighter future. In the New Economy, the old means of pumping up economic expansions through government spending no longer work. But standing by idly as wages, productivity, and innovation remain stagnant is a ticket to failure. Instead, we must be willing to be as innovative as the economy we seek to promote. That is the entry price for the next American economic boom. ✧

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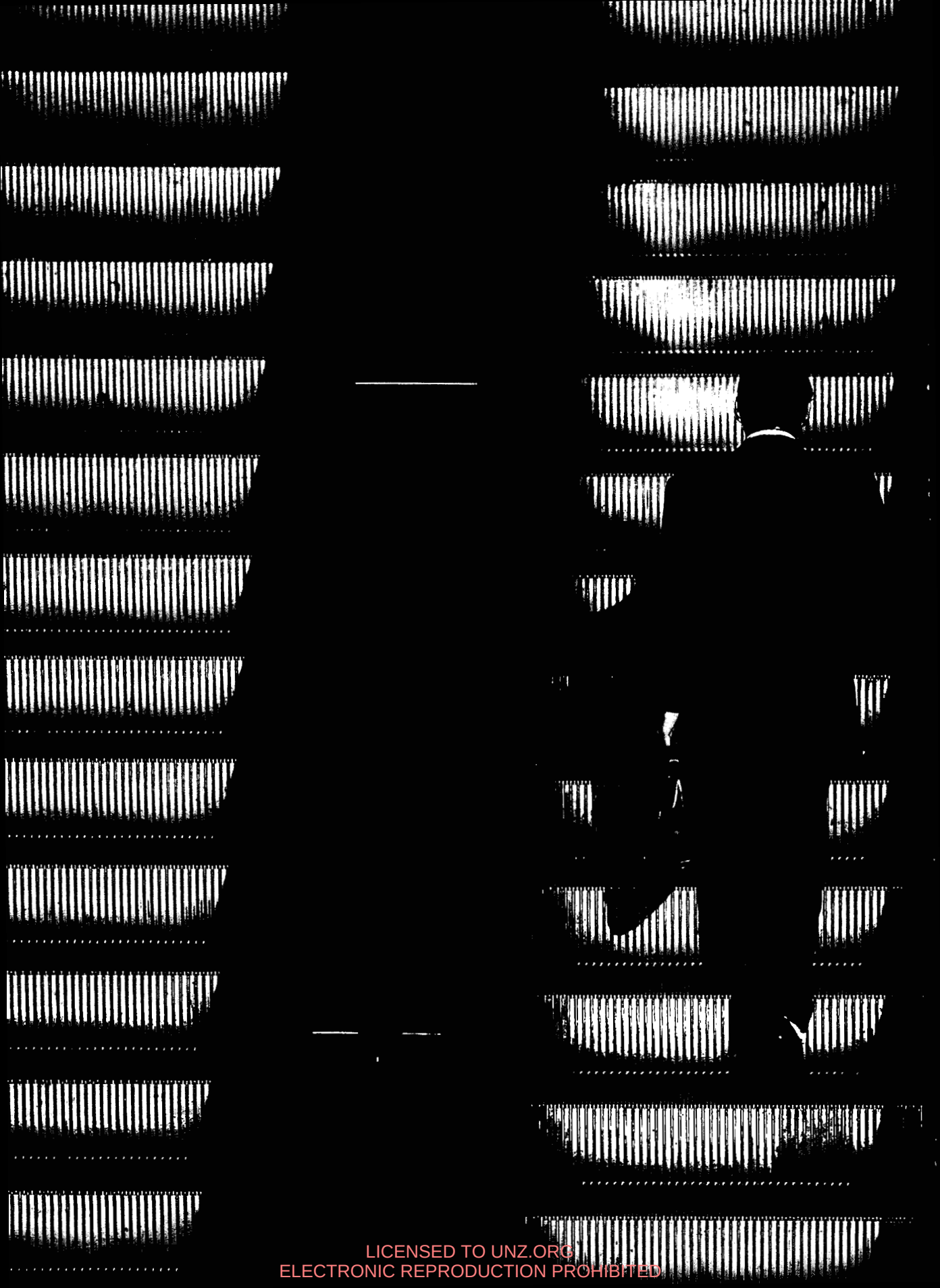

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Expanding the Winners' Circle:

by Robert E. Litan

A GUIDE FOR INCREASING UPWARD MOBILITY

Economic policy, it is often said, is about expanding the size of the pie and ensuring that its slices are not handed out too unevenly. By this criterion, the American economy was highly successful in its "golden age" from after World War II until 1973. Incomes for Americans in all parts of the income distribution increased faster than 2 percent a year — the pie was growing smartly while the ever larger slices were handed out fairly evenly. Since then, the economic pie has grown far more slowly, at little more than 1 percent annually, while the slices have grown far more unequal, bigger for those at the top income levels and actually smaller for those at the bottom.

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But the pie metaphor doesn't distinguish who gets the slices of the pie — the young or the old, for example — but instead simply measures how slices are divided among those who happen to be in different parts of the income distribution at any given time. In the real world, however, the economy is constantly in flux, with people moving in and out of the workforce and up and down the income scale.

The dynamic nature of the economy suggests that an escalator is a more useful metaphor. The distance between the various steps measures how unequal society may be. But a defining ethic of America has long been that, no matter which step you first land on or how great the distance to the higher steps, you have a good shot at moving up if, as President Clinton has frequently said, "you work hard and play by the rules."

The ethic, of course, is part myth. Children of privileged parents get on the escalator at much higher places than do those from broken homes and rough neighborhoods. But Americans see enough success stories — the immigrants who come to this country with literally nothing and whose kids soon are excelling at school and getting good jobs — to remain committed to the ethic, as they should be.

As we enter the 21st century, policymakers' central challenge will be to keep the opportunities that undergird the ethic strong. The stable workplace of the golden age, when many could count on a job with one company throughout their working lives, has long since vanished. Americans know that they must rely on their own wits and drive to constantly upgrade their skills so that they can survive and prosper in today's high-tech, global economy. Otherwise, they may well fall down the economic escalator — taking a lower-paying job after months of traumatic unemployment — if they become victims of the next downsizing, re-engineering, or merger. America must find a way to help more people avoid this fate. If it does not, the gap in Americans' lifetime incomes will grow ever wider in the years ahead, as Daniel McMurrer and Isabel Sawhill warn in their excellent new book, *Getting Ahead.* McMurrer and Sawhill point to the growing inequality in wages over the past 25 years (with the modest interruption since 1993 discussed shortly).

In the long run, equal opportunity on the economic escalator is best assured by improving K-12 education for all American children, a subject to be tackled in a future issue of **Blueprint**. In this article, I outline four ways to broaden opportunities for all those already in the workforce:

- run a "high pressure" economy;
- make on-the-job training more widely available;
- create the Leap Loan program for lifetime learning;
- create a system of wage insurance.

Run a "High Pressure" Economy

In the early 1970's the late Arthur Okun, who was chief economist during the latter years of the Johnson Administration and is widely regarded as one of the great economists of the post-war era, demonstrated the virtues of keeping the economy operating at or near "full employment" as a way of sustaining faith in the American ideal of equal opportunity. Okun found that a "high pressure" economy not only keeps the escalator moving at its "potential" rate of speed, but it also improves upward mobility — not just for new entrants who often come in on the bottom steps (in terms of pay level) and learn what it means to hold a job, but for many currently employed workers who find it easier to advance within their own companies.

What was true nearly 30 years ago is true today. According to the 1998 *Economic Report of the President*, after falling for over a decade, real earnings for households in the bottom quintile of the income distribution actually rose faster between 1993 and 1996 than in all other households (reversing a trend of the 1980's). Similarly, after remaining virtually flat from 1973 to 1993, median family earnings increased by 5 percent over the same period. A major reason for this welcome turnabout is that workers throughout the economy have been finding it easier to move up — thanks to

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prudent fiscal policy that has brought down interest rates to their lowest levels in a generation and to extraordinary monetary policy that has allowed the current expansion to eat away at the nation's unemployment rate without igniting inflation.

A clear lesson is that the nation reaps great benefits when the economy is allowed to run flat-out. A fast-moving escalator not only takes millions of Americans along for the ride, but makes it easier for workers in the bottom of the income distribution to climb to higher steps on their own.

But policymakers should not rely solely on sound macroeconomic policy management to assure continued upward mobility. Society has an obligation to explore all reasonable microeconomic policies for making it easier for people to climb up the escalator, however rapidly it may be moving, or to climb back on with minimum wage erosion if they lose their jobs. One of the fundamental differences between the old economy and the New Economy is that fast-paced changes in technology require most workers in the New Economy to continually upgrade their skills. And yet, until very recently, the government has provided relatively little help once people leave the cocoon of their formal education.

At the Administration's suggestion, Congress recently enacted tax legislation that provides modest incentives for many Americans already in the workforce to upgrade their skills. Americans with earnings under $100,000 can take a 20 percent tax credit on the first $5,000 — and, after 2002, on the first $10,000 — of expenses for post-high school education undertaken at any point in their lives. While this is a major step forward, the tax credit can only be taken if the individual is in school at least half-time and thus may be of limited use to many workers, who may not have the time to take that heavy a course-load given their current jobs. Moreover, the tax credit does not address a key problem facing many individuals in the workforce who want to attend school: providing *financing* to cover the tuition (which the availability of the tax credits may cause to increase somewhat).

The federal and state governments have paid more attention to the plight of displaced workers, providing them with unemployment insurance payments for 26 weeks or longer and offering a variety of training programs. Nonetheless, while unemployment insurance is important, it is too much "safety net" and not enough "trampoline." Neither the regular unemployment insurance program nor the extended version for workers displaced by trade (under the Trade Adjustment Assistance program) encourages workers to return quickly to work because workers continue to collect as long as they stay home (although they may be in a training program). Moreover, neither unemployment insurance nor trade adjustment assistance directly helps many workers who are forced to take a cut in pay when returning to work. This is perhaps the most severe long-term impact of unemployment: having to re-enter the economic escalator on a much lower step.

The hodgepodge of federal government training programs also has had its flaws. Some improvements are likely now that Congress has enacted the Workforce Investment Act (WIA) of 1998, after several years of prodding by the Administration. Among other things, the WIA consolidates multiple training programs, devolves responsibility and money for training to the states in "one-stop" offices for delivering counseling and training services to unemployed workers of all types, and encourages the states to give workers vouchers so that they can choose the training they believe best suits them. Still, the WIA will take time to have an effect, and even under the best of circumstances it should be viewed only as a good first step toward helping temporarily displaced workers.

While the government's current efforts deserve applause, the conditions of the New Economy require that we expand the winner's circle — or watch the gap between the well-to-do and the working class grow to unacceptable levels. Three ideas for expanding the circle follow.

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Make On-The-Job Training More Widely Available

Most private sector companies have incentives to train their employees because that training will help workers be more productive and deliver better products. According to the American Society for Training and Development, American business spent $55 billion on training in 1995.

But company-provided training primarily benefits a relatively small portion of the American workforce. For one thing, larger companies spend relatively more on training employees than do small and medium-size companies, which often do not have the resources or time to train their workers. Moreover, workers for these smaller companies tend to earn less and receive less generous benefits packages than do their counterparts at major corporations. Even within large companies, training is disproportionately provided to professionals and higher-salaried employees. And understandably, companies do not usually train workers for new careers, the option that for many people offers the best chance of moving up the escalator.

Robert Shapiro, former vice president of the Progressive Policy Institute and current Under Secretary of Commerce, has suggested an innovative way to encourage firms to spread around the training wealth more evenly. He notes that currently firms may count any training expenditures as a tax deduction — even those for junkets by top managers who attend a few courses in the morning at some resort but then frolic at the beach or on the links for the rest of each day. Accordingly, Shapiro suggests that much as the tax law now permits companies to deduct health care and pension costs only if they meet a "non-discrimination" test, firms should be able to deduct expenses for training only if it has been offered to a broad spectrum of the workforce.

Admittedly, writing workable, easy-to-apply non-discrimination rules is not simple. Current pension rules are a lawyers' and accountants' relief act. In addition, training expenses — some of which may consist of on-the-job instruction by full-time supervisors — are inherently more difficult to verify than health care and pension costs, which are almost always paid out to third parties. Nonetheless, the perfect should not be the enemy of the good. It should be possible to write a workable "safe harbor" such that firms could be deemed to satisfy the training non-discrimination test if, for example, they demonstrated that their training expenses constituted some portion (say 1 percent) of the salaries paid to the employees in the bottom 25 percent or half of their pay scale.

The non-discrimination test will not solve all problems with employer-provided training. Because training is like any other investment that firms consider making — it pays only if workers stay around long enough to apply the lessons they learn to help the firm make more money — companies may still be reluctant to help upgrade their workers' skills. Nonetheless, because many workers do stay with their companies and so investing in their skills promises payoffs for firms, a non-discrimination test for tax deductibility of training expenses should at least help ensure that those at the bottom of the pay scale will not be left behind as companies design their training programs.

Create the LEAP Loan Program for Lifetime Learning

Changing the tax law to ensure that training is made more widely available within companies, however, is not likely to help most Americans who work for smaller companies or workers who want to develop skills for new careers. Nor, for reasons already given, will the new lifetime tax credit help many of these

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workers. Instead, these workers need *financing*, especially those in the bottom half of the income distribution who generally have very little liquid savings (outside of retirement accounts) to pay for further education.

The obvious solution to this problem is to provide LEAP (Lifelong Education Advancement Pursuit) loans, modeled on the program that has helped finance the educations of tens of millions of American college students, most of whom are still in the workplace. Through LEAP loans, people with household incomes below a certain threshold (such as the $100,000 limit for the education tax credits) would be eligible for a certain amount of financing (such as $40,000) over their lifetime. The loans would be provided at subsidized interest rates, carry long maturities, and defer repayment for a fixed period (say four years). Such a program need not be that expensive. If, say, two million workers borrowed an average of $5,000 a year with an annual interest subsidy (counting the delayed payment benefit) of 10 percent, the government's total cost would be $1 billion, or 1/6 of the annual cost of the recently enacted education tax credits. An added twist would be to base repayments on the borrower's income so that workers would not find themselves overburdened with loan payments if their incomes do not rise initially.

Create a Wage Insurance Program

The other component of any upward mobility program must be a better trampoline for those who temporarily fall off the escalator because of involuntary unemployment. The new idea here is to provide wage or earnings insurance to supplement — and, as a practical matter, partially supplant — unemployment insurance.

For many workers, the most significant loss they suffer when getting laid off is not the temporary loss of income while they look for a new job, but instead the immediate and often long-lasting erosion in their earnings when they do land new employment. Workers develop what economists call "firm-specific" capital in the jobs they currently hold: a set of skills and relationships that often makes them more valuable to their existing employers than to their new ones, especially ones in a different industry. That loss of firm-specific capital is the reason many displaced workers have to return to the escalator on a lower step.

Wage or earnings insurance would help compensate workers for this painful adjustment, while providing strong incentives to returning to the escalator as quickly as possible. For example, under the version of the idea outlined in *Globaphobia* (a recent Brookings-PPI-Twentieth Century book I co-authored with Gary Burtless, Robert Lawrence and Robert Shapiro), displaced workers would be provided — for some period of time — a portion, say 50%, of their wage loss suffered in taking a new job. The total compensation would be capped at $10,000 to ensure that upper income individuals were not disproportionately compensated. Payments would be made through the states, as with current unemployment insurance. To provide a concrete example: A worker who made $40,000 at her old job who takes a new job paying $30,000 would collect the equivalent of $5,000 a year (50 percent of the $10,000 income loss) until the eligibility period expired.

Of key importance: Workers would not begin collecting wage insurance payments until they found a new job, and would collect only for a set time period that would be counted from the time they were laid off (say, two years). This feature would provide a very strong incentive for workers to find new employment, even if it meant taking a pay cut, which can be viewed as either the loss of firm-specific capital or the amount the firm must reinvest in training the new employee — or both. Indeed, wage insurance can be seen as a subsidy for the kind of training that has proved to work the best: on-the-job rather than in a classroom, where job placement prospects always will be uncertain.

As a government program, wage insurance could take various forms. In its most limited version, it could be viewed as a supplement or even replacement for Trade Adjustment Assistance, aimed at workers displaced either by trade generally or by new trade agreements.

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In that event, it is unlikely that the program would cost more than $1 billion annually, and conceivably could cost much less.

The logic of wage insurance, however, argues for a more expansive application to the workforce. Trade, after all, is only one — and indeed a relatively minor — source of displacement. But a general program could be considerably more expensive. A variation of an economy-wide program would be to provide a refundable income tax credit to workers who suffer a loss in income exceeding some threshold percentage.

It might even be unnecessary to run wage insurance as a government program. Instead, government could work with private sector insurers to develop a product that these insurers could provide either directly to workers or through employers as a fringe benefit. Indeed, an increasing number of firms already are offering severance benefits as a fringe benefit to entice new workers, who understandably are worried that they could one day become the next victims of downsizings or mergers.

Private insurers can be expected to figure out how to structure insurance so as to minimize the familiar problems of "moral hazard" (insureds taking greater risks because of the insurance) and "adverse selection" (only the riskiest insureds signing up for the program). One possibility is to offer the insurance only for workers who have been with a firm for some minimum period of time (say, one year), to avoid churning.

There is one impediment that insurers would need some government help overcoming, however. Insurers now do not offer unemployment insurance primarily because of the risk that a large increase in the statewide or national unemployment rate could require them to compensate many of their insureds at one time. For similar reasons, insurers are reluctant to write insurance against large natural disasters, which can cause widespread damage to many insureds simultaneously.

The government can address this risk, however, by selling reinsurance to private insurers to cover their costs when the statewide or national unemployment rates exceeds a certain threshold. Indeed, Congress has been considering during the past year a similar system for reinsuring property-casualty insurers against large disaster-related risks.

Where Will The Money Come From?

An effective program for expanding the winners' circle in the New Economy need not be prohibitively expensive. Adding training non-discrimination provisions to the tax code probably wouldn't cost anything and, indeed, might gain the Treasury some revenues if it increased productivity. As already noted, a lifetime skills upgrading loan program could be structured to cost in the $1 billion range. A carefully targeted wage insurance program might have a cost that is at least similar and, arguably, much less if run as a reinsurance program for private insurers (which, if properly priced, need not cost the government anything).

Whatever the modest costs, they should be kept in perspective. With new education tax incentives in place, the federal government now spends directly and through the tax system over $13 billion annually assisting college students with their education. Counting the lifetime learning credit, the government spends only about $8 billion on training all the rest of the workforce combined. A modest increment for those already working is a small price to pay to assist Americans to climb higher on the economic escalator.

It should be a matter of principle and pragmatism that all Americans get a chance to share in the opportunities presented by the changes that are shaping our world. If America is to succeed in the New Economy, then *Americans* must succeed — and the circle of opportunity must be expanded so that no one is left out. ✧

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PUBLIC OPINION

Americans are highly optimistic about the New Economy, but see a dangerous Skills Gap forming between those who have the education and training necessary to succeed and win — and those who are in danger of getting left behind.

Voters embrace what could be called a "Trade and Train" agenda — aggressively opening markets and opportunities for Americans around the world, while giving workers the tools they need to succeed.

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Choosing The New Economy

by Mark J. Penn

Asian economies are collapsing. Brazil is near bankruptcy. Russia's economy is plunging into an abyss, with grave political and security implications for the world. The global tumult has yet to directly affect the United States' economy, but there have been disquieting tremors. In the midst of all this turbulence, many pundits and politicians — particularly those on the far right and the far left — are advocating a disengagement from global economy. But these voices don't take into account a powerful voice that argues for just the opposite: that of the American people.

According to the results of a new survey of 500 voters nationwide, conducted October 27–28, 1998, the public retains a commitment to the New Economy and a commitment to making it work for ordinary Americans.

Among our significant findings:

1. **Americans are optimistic about the New Economy — for themselves, for the nation, and especially for their children.**

2. **Americans understand that skills and learning are the ticket to success in the New Economy — and they are worried by a large Skills Gap that threatens the nation's progress.**

3. **Americans look to large institutions — including government, business, and labor — to help them get the skills they know they need to thrive in the New Economy.**

4. **The electorate of the future is defined by two groups that have been shaped by and eagerly embrace the New Economy — GenerationX and Wired Workers.**

Mark J. Penn is president of Penn, Schoen & Berland Associates, Inc. and the pollster to President Clinton.
Research and polling assistance provided by Jenifer Coleman.

Full results of this poll can be found at www.dlc.org/blueprint/winter98/poll.html

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1. A Fundamental Optimism

A strong majority of Americans are optimistic about the New Economy[1] and its dual catalysts—technology and trade. This positive outlook extends well beyond the simple acknowledgment that the economy is strong; it is couched in the widely-held belief that America and its citizens have benefitted from big changes in technological progress and involvement in the global economy.

By a margin of nearly three-to-one, Americans believe that the country is benefitting from the New Economy, while those who say that they have personally benefitted is double that of those who believe that they have been hurt.

Table 1

Do you think America/you are personally gaining or losing in the New Economy?

	Gaining	Losing
America	68	24
Self	57	28

It is notable that Democrats tend to be more optimistic about the New Economy than their Republican counterparts:

Table 2

Do you think America/you are personally gaining or losing in the New Economy?

	All		Democrats		Republicans		Independent	
	Gaining	Losing	Gaining	Losing	Gaining	Losing	Gaining	Losing
America	68	24	81	14	54	38	66	25
Self	57	28	63	22	55	32	52	30

Technology

This optimism about the New Economy also extends to public attitudes about its components — including technological change. Despite fear mongering by neo-Luddites on both political extremes, American leadership in technology is of prime importance to a majority of the public — even if this means some jobs may be at risk. It might be said that America's technological leadership of the world has become a patriotic issue for voters. A majority (57 percent) thinks it is important that America remain on the cutting edge of technological leadership *even* if that means losing some jobs in traditional industries, whereas only 35 percent believe we should concentrate on protecting traditional jobs even if it means sacrificing American leadership in technology.

[1] *The New Economy was defined to the respondent as follows: The New Economy refers to the changes in our economy due to the spread of information technology and communications like the Internet, the move from assembly line processing to more team-work oriented and information intensive work, and the globalization of trade and commerce.*

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Table 3

Do you think it is important that America remain on the cutting edge of technological leadership even if that means losing some jobs in traditional industries, or should we concentrate on protecting traditional jobs even if it means sacrificing American leadership in technology?	
Remain on cutting edge	57
Jobs more important	35

The Global Economy

America's pro-New Economy attitude also extends to globalization. Despite the current economic turmoil, the churning impact of rapid growth in trade in recent years, and a series of landmark national debates on major pieces of trade legislation, an overwhelming majority of Americans believe we should not pull back from the global economy — and should, in fact, lead. When given a distinct choice, the public's sentiment against protectionism is clear: 85 percent think that the U.S. should be a global economic leader, while 12 percent think we should withdraw as much as possible from the global economy.

Part of this commitment to leadership in globalization stems from the fact that Americans believe that the New Economy is here to stay. In a rebuke to political leaders who are searching for an audience in favor of slowing down trade, sixty percent of Americans say that the United States is part of the global economy and could not turn away from it now, even if we wanted to. Only a little more than a third (36 percent) say that it is not too late to turn back from globalization and that the U.S. should concentrate on domestic interests.

The New Economy's effect on Americans

Perhaps this commitment to globalization stems from the fact that the forces of the New Economy are more than theoretical for voters — they are a part of their everyday lives. When it comes to the New Economy's effect on them personally, Americans who feel they have been influenced by these changes see a net positive.

Table 4

Specifically thinking about advances in technology/increasing trade and globalization, do you think this has helped you, hurt you, or not affected you personally?

	Helped	Hurt	Not affected
Technology	62	6	30
Trade and globalization	31	16	50

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The high numbers of Americans who feel that the New Economy has not touched their lives shift substantially when it comes to considering the next generation. The public believes that we are only on the cusp of the impact the New Economy will bring to the nation and they are excited for their children in this new era. Americans' optimism about the New Economy is rooted in their expectations for the future. Twice the number of Americans who believe that trade and globalization have helped them, believe these forces will help their children.

Table 5

Specifically thinking about advances in technology/increasing trade and globalization, do you think this will help your children, hurt your children, or will it not affect them? [Among Parents]

	Help	Hurt	Not affect
Technology	75	9	14
Trade and globalization	65	15	13

Trade

Some of the clearest examples of economic change have come in the area of trade — the linchpin of globalization and a basic test of optimism about the New Economy. Our survey found broad support for international trade. Nearly three in four Americans (73 percent) favor efforts to expand trade with other countries around the world, with similar majorities supporting expanding trade with developed nations (78 percent) and developing countries (75 percent). Only 21 percent of American oppose efforts to expand trade. This opposition to trade stems in large part from the belief that opening our markets will export jobs.

Table 6

Of those who opposed: Why do you oppose efforts to open up markets?

	All	Liberal	Moderate	Conservative
Trade causes American jobs to move overseas.	43	22	35	50
Trade creates more competition in American industries.	16	23	19	14
Trade hurts other nations/developing nations.	6	22	5	3
Trade makes the U.S. more vulnerable to and dependent on the world economy.	27	26	34	24

Yet, much of this opposition to trade would erode if the government did more to ensure American workers had the training necessary to win in the world arena. Of those who currently oppose expanded trade, 48 percent would support efforts to open up markets around the world if the government did more to ensure that American workers had the skills to compete in the global marketplace, while 43 percent would still remain opposed.

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The Left Behind

Those voters who feel the country is gaining from the New Economy but they have personally been left behind are more likely to be blue collar, unemployed, or retired. The "left behind" are more likely to fall into the lowest income bracket (those earning less than $20,000 per year); more likely to be black (18 percent vs. 10 percent overall); and are generally either the youngest (18–24 year olds) or oldest (over 50).

Compared to 24 percent overall, 43 percent of these respondents are less secure in their jobs as a result of the New Economy. Forty-nine percent believe they don't have the skills to succeed — twice the percentage of the population as a whole. Despite feeling left behind in the New Economy, this group does see benefits for the country as a whole and believes the country should seize the opportunities ahead. This group of voters — 10 percent of the electorate — is, in fact, more likely to support efforts to expand trade with countries around the world than are voters overall (82 percent v. 73 percent).

2. The Skills Gap

As is evident in the dramatic reduction of opposition to trade when it is combined with training programs, Americans understand the importance of continuing education and obtaining skills in the New Economy.

Almost all voters make the direct connection between economic success and education: 84 percent think the New Economy has made education more important in earning a higher income now than in the past, six percent less important, and only nine percent think it has had no impact.

Americans also believe that higher skills mean higher incomes — whether you win or lose in the New Economy is directly related to skills, according to nearly two-thirds of respondents. In fact, even a majority of low income voters, who have thus far been left behind by the New Economy, believe that wages are tied to skills.

Table 7

Which is closer to your view?

	All	<$20K	20-34K	35-49K	50-74K	75-99K	$100K+
The New Economy has resulted in higher wages for workers with more skills and lower wages for less skilled workers.	64	59	68	61	68	65	71
The New Economy has held back the wages of workers across the board.	27	31	26	31	29	24	18

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Overall, 74 percent of voters think they, personally, have the skills to succeed in the New Economy, while 24 percent do not. But, paradoxically, when it comes to the nation and their neighbors, the picture changes dramatically. Only 34 percent of voters think most Americans have the skills to succeed in the New Economy, while 60 percent do not.

Table 8

Do most Americans have the skills to succeed in the New Economy?

	All	<$20K	20-34K	35-49K	50-74K	75-99K	$100K+
Yes	34	35	31	31	35	38	45
No	60	57	65	59	59	62	55

3. Handling the New Economy

Voters are looking towards the big institutions of American life — government, business, and labor unions — to play a new role in helping citizens acquire the skills they need to rise in the New Economy.

The public believes that skills are the ticket to success in the New Economy and that most Americans do not possess those skills. Considering this combination, it should come as no surprise that a majority of voters do not believe that the government is doing enough now to provide Americans with the training they need to succeed in the New Economy.

Table 9

Do you think the government is doing enough now to provide Americans with the skills they need to succeed in the New Economy, or not?

Yes	41
No	53

This poor view of government action is all the more important because there is a widespread conviction that obtaining skills is the most important tool needed to seize the opportunities the New Economy has to offer. A full 58 percent of voters pick "lifelong access to education and training" as the first or second most important factor in their success in the New Economy.

Interestingly, the two factors Americans consider least important for success in the New Economy are "stronger labor unions" and "protection from global competition." The American workforce is evidently confident that, given the necessary tools and skills, they can take on the competition — and win.

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Table 10

Which of the following is most important to your success in the New Economy:	(1st and 2nd choices)
Lifelong access to education and training	58
Personal control over pension and healthcare benefits	56
A tax cut	34
A chance to own stock in your workplace	21
Stronger labor unions	14
Protection from global competition	10

Similarly, looking beyond themselves, Americans rate a well-educated and trained workforce as far and away the most vital component for national success in the New Economy:

Table 11

Which of the following do you think the United States' success in the New Economy depends on most?	(1st and 2nd choices)
Having a well educated and trained workforce	59
Maintaining a balanced budget and fiscal discipline	39
Having a low tax burden for all citizens	32
Being a leader in technology	29
Making sure our goods have access to foreign markets	19
Having an economic structure with less regulations	14

Americans are clear in their belief that this government involvement in skills training and education should not take the form of "Great Society" style hand-outs and big programs. At the same time, they reject the notion that government involvement should be minimal. Instead, Americans want their government to provide opportunities and leadership so that individuals can help themselves.

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Table 12

Following are some things people have said about the role of government in the New Economy. Which is closest to your view?

	All	Democrat	Republican	Independent
The government should expand the social safety net to provide more security for Americans.	19	24	9	20
The government should provide Americans with the tools and opportunities necessary to succeed in the New Economy.	55	62	46	56
The best way to help Americans succeed in the New Economy is for the government to do as little as possible.	24	12	42	21

Consistent with this worldview, Americans don't rely solely on government action for the help they see as vital in the New Economy. They believe business' major responsibility is in helping their employees get the education and training they need.

Table 13

Following are some things people have said about the role of private companies in the New Economy, Which is closest to your view?

	All	Democrat	Republican	Independent
Companies should protect workers from layoffs.	22	29	15	22
Companies should invest in the skills and productivity of their workers.	66	63	70	69
Companies should maximize profits for the benefit of shareholders.	8	7	11	6

Another institution Americans are looking to for help in adjusting to the New Economy is labor unions. While most Americans (56 percent) continue to see labor unions as relevant in the New Economy, 40 percent say labor unions are a thing of the past. This opinion is not fixed, however. If labor unions take the necessary steps, nearly three in four voters believe they can remain active, successful institutions in the future. This point is even more prevalent among respondents from union households and union members themselves.

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Table 14

Do you think if labor unions adopted new strategies to help workers get the benefits and training they need, they would be more relevant in the New Economy, or do you think they are outdated no matter what they do?

	All	Labor Union Households
Could be more relevant	72	84
Outdated no matter what	25	14

An Agenda for the New Economy

Our poll shows that Americans want government to take a leading role in ensuring that workers are equipped for the challenges of a New Economy and a new millennium. We found that a variety of proposals to increase worker opportunities for Americans receive strong support. The most popular of these proposals would increase the availability of, and access to, training and educational services — not through a hand-out, but by using market forces and individual empowerment.

Table 15

Following are some ways in which the federal government can ensure that Americans have the opportunities needed in the 21st century. For each one, please tell me if you strongly support, somewhat support, somewhat oppose, or strongly oppose each proposal.

	Strongly Support	Support/Oppose			
		All	Dem.	Rep.	Ind.
Require employers who get a tax break for training to provide training to all workers, not just executives	68	89/9	93/5	85/12	88/10
Help workers get loans with low interest rates to use to get training whenever they need it throughout their careers	64	86/10	88/8	81/17	89/8
Encourage companies to give workers more of a share in the future of the company	63	87/9	90/5	83/15	90/7
Establish wage insurance that will temporarily limit income loss for laid-off workers who are forced to take lower paying job.	39	67/27	73/22	60/36	73/24

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4. The New Economy electorate

As in our poll in the last volume of **Blueprint**, the views of two particularly important voting blocs, GenXers and Wired Workers, provide insight into the future of American politics — both because they are becoming an increasingly large share of the electorate and because they are on the leading edge of Americans facing the changes of the New Economy.

Most striking about the views of these two groups is that not only are they much more optimistic about the impact of technology and trade on the country and on their personal situation, but that they overwhelmingly support New Democrat strategies of equipping Americans to deal with the New Economy. More than other groups, these voters see education and training as the most important factor in their success — and see both government and business as responsible for providing access to that training.

The youngest voters — the 18–33 year old GenXers — are the voters who will be wrestling with the challenges of the New Economy throughout their entire lives. They have grown up and built careers as the Information Age and global economy have developed and flourished. Even though they are presently only a quarter of the electorate, the views of GenXers on how to meet these challenges are important for the future of American politics.

Similarly, Wired Workers — the 28 percent of the workforce who work with a computer in a teamwork-oriented environment — are a constituency that has been created by the increase in technology and the fundamental economic changes produced by the Information Age.

Both of these groups overwhelmingly embrace the New Economy and have been positively affected by it.

Table 16

Do you think America/you are personally gaining or losing in the New Economy?

	All		GenX		Wired Workers	
	Gaining	Losing	Gaining	Losing	Gaining	Losing
America	68	24	80	17	78	21
Self	57	28	66	20	74	15

Table 17

Are you more/less secure in your job as a result of the New Economy?

	All		GenX		Wired Workers	
	More	Less	More	Less	More	Less
Self	45	24	59	20	59	25

Whereas just under three-fifths of all voters see lifelong access to education and training as a key to success in the New Economy, two-thirds of GenXers and Wired Workers look to skills for their success.

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Table 18

Which of the following is most important to your success in the New Economy:

	(1st and 2nd combined)		
	All	GenX	Wired Workers
Lifelong access to education and training	58	67	66
Personal control over pension and healthcare benefits	56	54	61
A tax cut	34	31	27
A chance to own stock in your workplace	21	19	24
Stronger labor unions	14	19	8
Protection from global competition	10	7	11

These two groups — the "growth sectors" of the electorate — understand that, in the Information Age, government action must take new forms.

Table 19

Following are some things people have said about the role of government in the New Economy. Which is closest to your view?

	All	GenX	Wired Workers
The government should expand the social safety net to provide more security for Americans.	19	19	13
The government should provide Americans with the tools and opportunities necessary to succeed in the New Economy.	55	63	66
The best way to help Americans succeed in the New Economy is for the government to do as little as possible.	24	17	20

Both Wired Workers and GenXers understand better than any other group that the New Economy means that the old choices offered in the Industrial Age no longer work. Their hunger for new strategies and new solutions is a harbinger of a changed outlook that more and more Americans might well come to demand. ✧

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WHAT WORKS

Around the nation, Americans are meeting the challenges presented by the New Economy with creative and innovative thinking. Here we highlight three such examples of public action — and show where to go next:

- Labor unions which better serve workers by adapting to the changing circumstances around us.
- Companies which improve competitiveness by giving workers a stake in the form of stocks.
- Partnerships between business, labor, government, and universities which give Americans the skills they need to succeed.

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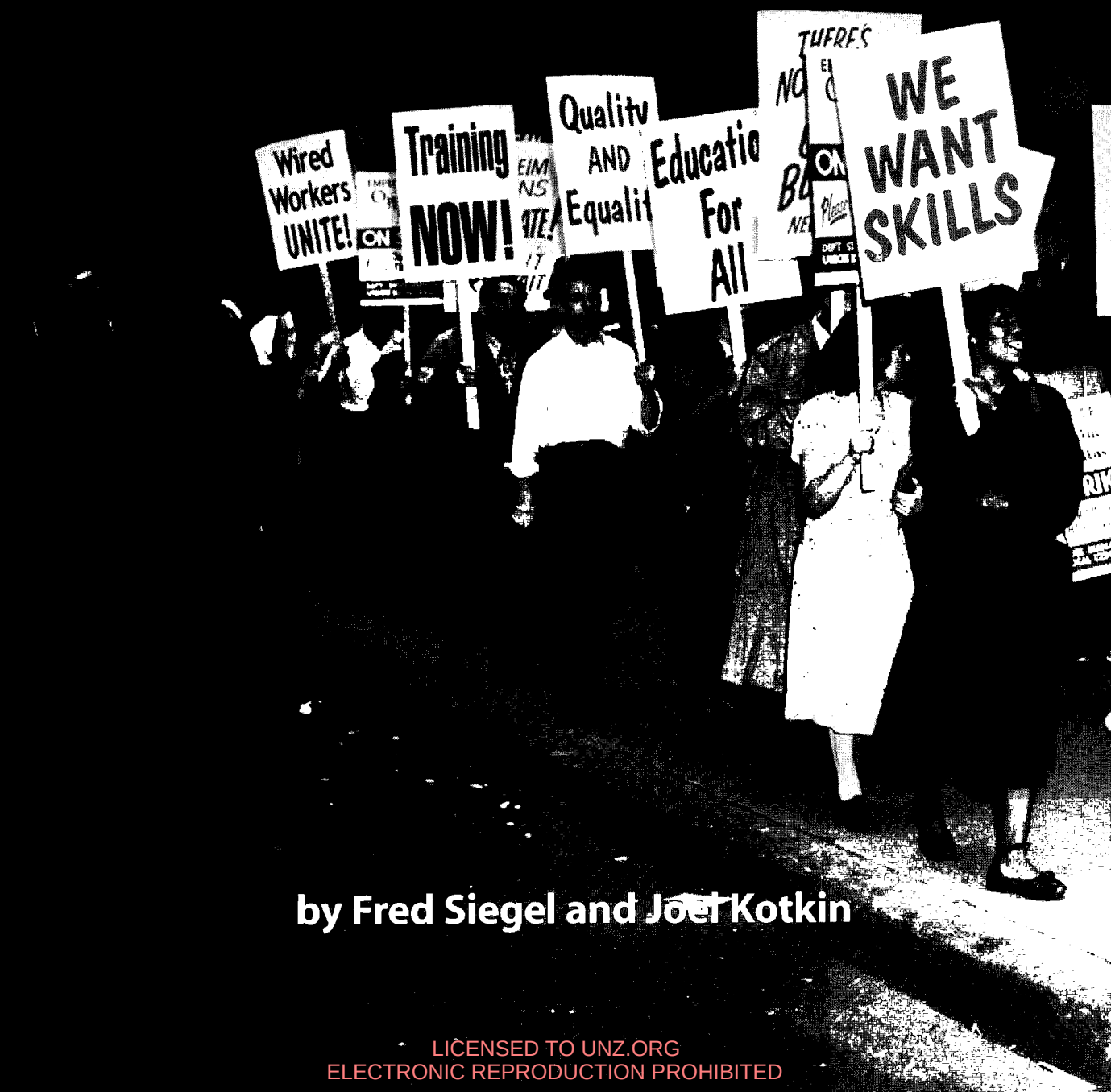
Back to the Future with New Labor



by Fred Siegel and Joel Kotkin

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John Sweeney's election as AFL-CIO president has infused the labor movement with new energy and political clout. Aggressive organizing drives have unionized the hotel workers of New Orleans and Las Vegas, while the number of successful strikes has grown sharply since 1996. Nevertheless, the American labor movement, while reinvigorated, is struggling against the powerful currents of the New Economy. In spite of organizing 400,000 new workers, the AFL- CIO has lost more than 200,000 members since early 1996. This net loss of members comes because trade unions are increasingly shut out of the large and growing sectors of the New Economy. As a spokesman for the National Association of Manufacturers points out: "You look at where the new jobs are — database administration, systems analysts — and unions have not had much luck penetrating those occupations." The long-term survival of the American labor movement rests on its ability to organize in the New Economy. There are signs that a new labor can emerge as a powerful force in the New Economy.

The labor movement came of age at a time when big business reluctantly accepted unions on the condition that their cost be imposed industry-wide. A quarter century ago, the heavily unionized Fortune 500 companies provided one out of every five private sector jobs; today, that ratio is less than one in ten. Labor's lost ground has been most marked in the diminishing industrial sector. In 1980, roughly 50 percent of factory workers labored in plants with more than 500 employees; today, that number has dropped to barely a third.

Fred Siegel is a Professor at the Cooper Union. Joel Kotkin is a Professor of Public Policy at Pepperdine University.

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At the same time, the burgeoning high-tech sector has been largely impervious to union organizing. This poses a huge structural problem for labor since high-tech represents a key growth sector of the economy. According to estimates by Wharton Econometrics, between 1991 and 1997, the percentage of economic growth accounted for by high technology tripled from less than five percent to over fifteen percent.

The shift to new technologies and niche production is part of a larger transformation that has broken giant corporations up into their constituent parts. These new companies, in the words of Bennett Harrison, "concentrate control but decentralize production." In place of industries dominated by giant producers that could impose their cost structure on the country, the new companies — often acting as part of global strategic alliances — farm out work to a network of independent contractors.

How does organized labor fit into this picture? "The problem," notes Dan Luria, a researcher at the Ann Arbor-based Industrial Technology Institute, "is that labor can at best increase productivity by 10 percent, but wants to raise wages by 50 percent. If they could do both at 50 percent, it would have a chance of working." Perhaps the clearest opportunity for labor, according to experts like Luria, lies in the area of training. "The role for unions in a society that needs technical skills is to provide them," Luria says. "Then the employer networks will have to turn to the union. You need to provide apprenticeship and training. Then you become more valuable by providing a productivity premium to offset the wage premium."

Certainly the conditions for filling such a role exist and the future of the American labor movement rests, in large part, on its willingness and ability to fill that role. American employers universally complain about the lack of skilled workers in everything from the building trades to animation. To be sure, many of these labor skill problems can be traced to weaknesses in the public education system, but those weaknesses only increase the potential role the labor movement can play in creating the workforce for the New Economy.

All too often, however, unions have used their leverage in the marketplace not to solve problems but to lower standards. For example, in the port of Los Angeles — a thriving hub of global commerce — attempts to hire new dockworkers are being slowed, according to shippers and port officials, by the fact that one-third of applicants, including many high school graduates, fail tests requiring seventh-grade math and English skills. Many also reportedly flunked drug tests. Yet the union responded by calling for lowering standards, rather than improving the quality of the workforce.

Although a powerful union like the Longshoremen's may see a short-run benefit in such "dumbing down," labor is better served by exploiting this quali-

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ty and skills shortages to persuade employers to accept unionization. Some unions already provide a working model: offering certification, continuing education, and "hiring hall" services to employers. Their role in this social bargain with employers gives them new standing to fight for the rights and wages of their workers.

In the entertainment unions as well as the building trades, labor loosely follows a guild model — organizing skilled workers while supplying them with health care and training as well as political clout. These unions have secured well-paying jobs, quality benefits, and new opportunities for their workers — while enhancing the industry's economy.

So far, these unions have been found largely in industries in which few workers remain with the same employer for long periods. In the entertainment industry, for instance, only 80,000 salaried employees work directly for studios and independent producers, while 146,000 labor as freelancers, writers, directors, or craft specialists. Only 16 firms in the industry employ more than 1,000 people.

This guild model will only become more resonant in an economy in which three-quarters of all companies have 10 or fewer employees and workers increasingly move from project to project. The growth of a contingent workforce employed by different firms successively led Amy Dean, director of the South Bay AFL-CIO Central Labor Council in Silicon Valley, to implement what she calls "Back to the Future Unionism." Backed by John Sweeney, Dean's Working Partnership USA program provides health and pension benefits to contingent workers in what amounts to a high-tech version of an old-fashioned hiring hall.

Another example of adaptation comes from the construction industry, long plagued with labor-management mistrust. Building contractors have in recent decades shed high-cost union workers only to discover that there was no way to adequately train their employees who moved from job to job, since no one employer had a long-term investment in his staff. But the Pipe Trades Training Center in San Jose resolves this dilemma by training men and women in the unique skills that give them an extraordinary advantage over non-union workers. At the state-of-the-art, 56,000-square-foot facility, the pipe trades union and the local community college teach journeymen trainees up-to-date knowledge of the latest construction techniques. The union then cooperates with contractors through the South Bay Industry Labor/Management Trust in marketing both the quality of the workers and the region.

Before the Industrial Revolution and the era of mass production, guilds were essential to helping workers succeed. Today, during the Information Revolution and the era of mass customization, the guild approach could bring labor into new groups of skilled and professional workers in growing economic sectors — for example, doctors working in HMOs, multimedia employees, and graphic artists. Instead of resisting or ignoring growth industries, labor could become an important player in the New Economy and a powerful force in helping American workers succeed and prosper. ✧

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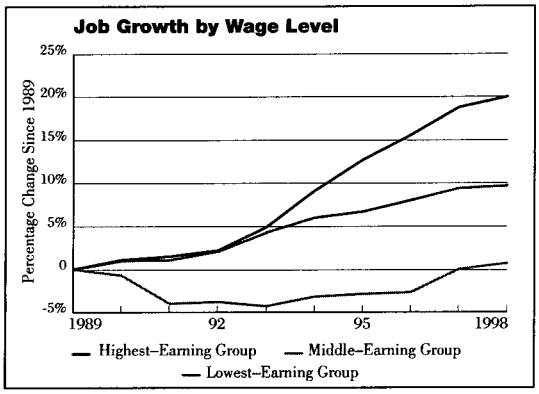
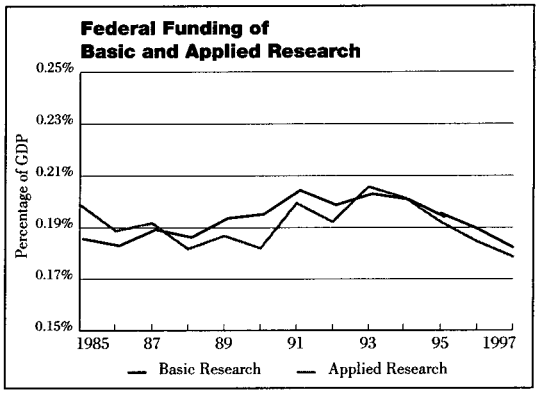
Keys to the Old and New Economies

ISSUE	OLD ECONOMY	NEW ECONOMY
Economy-Wide Characteristics:		
Markets	Stable	Dynamic
Scope of Competition	National	Global
Organizational Form	Hierarchical, Bureaucratic	Networked
Industry:		
Organization of Production	Mass Production	Flexible Production
Key Drivers of Growth	Capital/Labor	Innovation/Knowledge
Key Technology Driver	Mechanization	Digitization
Source of Competitive Advantage	Lowering Cost Through Economies of Scale	Innovation, Quality, Time-To-Market, and Cost
Importance of Research/Innovation	Low-Moderate	High
Relations With Other Firms	Go It Alone	Alliances and Collaboration
Workforce:		
Policy Goal	Full Employment	Higher Real Wages and Incomes
Skills	Job-Specific Skills	Broad Skills and Cross-Training
Requisite Education	A Skill or Degree	Lifelong Learning
Labor-Management Relations	Adversarial	Collaborative
Nature of Employment	Stable	Marked by Risk and Opportunity
Government:		
Business-Government Relations	Impose Requirements	Encourage Growth Opportunities
Regulation	Command and Control	Market Tools, Flexibility



High wage, high-skill positions — computer programmers, managers and professionals — are growing rapidly as a share of all jobs in the New Economy. But so are low-wage, low-skill jobs like cashiers, janitors, waiters, and waitresses. Meanwhile, the share of jobs in the middle has declined.



Federal support for non-defense R&D has been steadily dropping, from about 1 percent of GDP in the 1960's to less than half that percentage today. The decline is actually gaining steam, with all federal investments in research shrinking at an average annual rate of 2.6 percent in constant dollars between 1987 and 1995.

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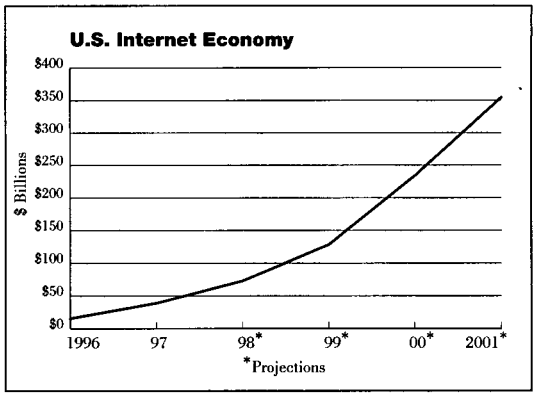
Many talk about the New Economy. Few have been able to define it. But the Progressive Policy Institute has done just that in a user-friendly guide to what's actually new about the so-called New Economy.

The New Economy Index: Understanding America's Economic Transformation

The report provides a new set of economic indicators that illustrate the fundamental structural changes in the U.S. economy, show what those changes mean in the lives of working Americans, and measure the nation's progress in several key foundation areas for future economic growth.

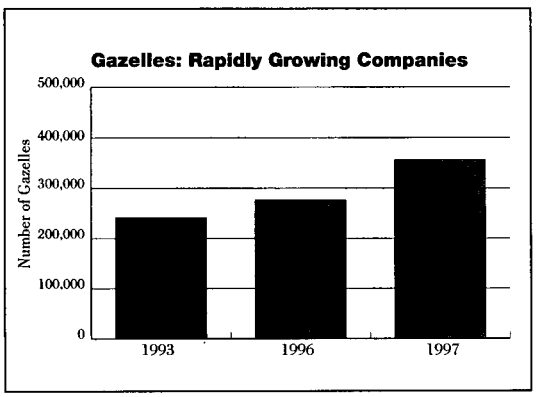


The total U.S. Internet economy more than doubled between 1996 and 1997, growing from $15.5 billion to $38.8 billion. By 2001, the total U.S. Internet economy is projected to be over $350 billion, with business-to-business e-commerce expected to account for this largest share — $186 billion.

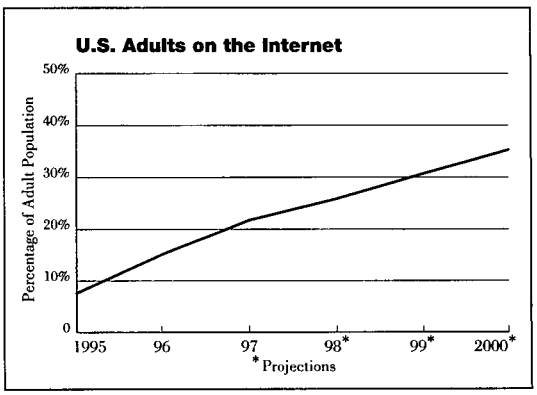
Review the New Economy Index

on the Web at www.neweconomyindex.org.

Or call the Progressive Policy Institute, (800) 546-0027, to order a copy of the glossy booklet for $9.95.



The New Economy is increasingly made up of "gazelles" — companies with sales growth of at least 20 percent per year for four straight years. These rapidly-growing companies accounted for 70 percent of all net job growth in the Untied States between 1993 and 1996.



It will have taken the Internet less than seven years to be adopted by 30 percent of Americans, compared to 13 years for PCs, 17 for televisions, and 38 for telephones. As is the case with other new technologies, wealthier and more-educated consumers are the early adopters. However, as the technology becomes cheaper, a broader range of Americans are getting online.

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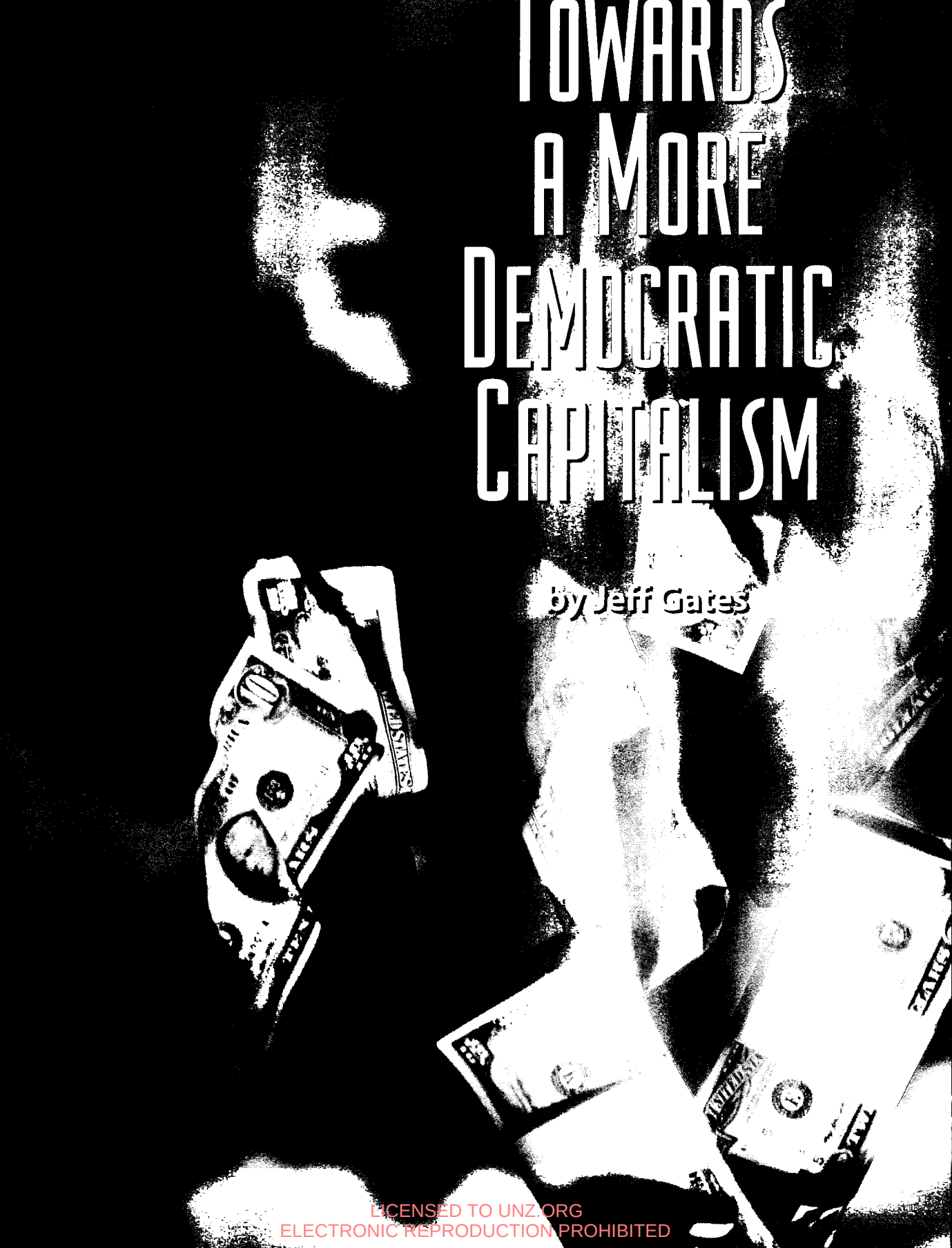
Toward a More Democratic Capitalism

by Jeff Gates



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If America is serious about expanding the winners' circle, we need a capitalism that creates more capitalists. Current trends confirm that despite all our economic progress over the past few years, the rising tide of the New Economy is not lifting all boats:

- The net worth of the top one percent of Americans is now greater than that of the bottom 90 percent, according to research from the Federal Reserve and the Internal Revenue Service.

- Although average household income climbed 10 percent between 1979 and 1994, 97 percent of that gain was claimed by the most well-to-do 20 percent.

- In 1973, the income of the top 20 percent of American families was 7.5 times that of the bottom 20 percent. By 1996, it was more than 13 times that of the bottom 20 percent.

- The average wealth of white households, although modest, is seven times that of Hispanics and 10 times that of African-Americans.

- Although record numbers of Americans own stocks, 71 percent of households own no shares or hold less than $2,000 in any form, including stock mutual funds and popular 401(k) plans, according to a 1995 study by MIT economist James M. Poterba.

Jeff Gates, president of the Shared Capitalism Institute in Atlanta and author of The Ownership Solution (Addison Wesley, 1998), is a former counsel to the U.S. Senate Finance Committee.

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If American workers are to be asked to accept the greater risks posed by the churning New Economy, they also must have a chance to reap its greater rewards. Providing that opportunity means more than encouraging individual efforts — for personal savings cannot realistically be expected to lead to significant capital accumulation. That naive approach could be called Marie Antoinette capitalism — with the modern refrain,"let them buy shares." After all, American workers are told, it's a free market. But when it comes to real equity and ownership in the companies that rely on them, most workers find the "free market" to be out of their price range.

Rewiring Capitalism for Inclusion

There is a better way — one that uses market forces to give Americans greater equality, a higher standard of living, and a stronger voice in their own future. Best described as democratic capitalism, this strategy relies on incentives to ensure that our economy creates a broad base of owners as part of its very operations. Democratic capitalism can offer more than cold pragmatism or contrived compassion. It can give average American workers the opportunity and incentives to become more productive and innovative — and let them reap the rewards for doing so.

To make this inclusive strategy work, we must figure out how to draw on business savings and commercial credit to make capitalists of those with little financial capital to invest. We need a strategy to more broadly distribute new wealth without redistributing already-owned wealth. Finally, we must make owners of those best positioned to affect commercial outcomes — the employees on the ground who make America's economy work.

Some small-scale experiments already suggest ways to create democratic capitalism. Employee stock ownership plans (ESOPs), adopted by 11,000 U.S. companies covering 8 million workers, offer a modest beginning. Championed by former Sen. Russell Long (D-LA), ESOPs have been in the tax code since 1975 as an inclusive finance technique. They are most commonly used to buy founders' shares or to acquire an entrepreneur's stake.

While current ESOP incentives are far too modest to advance broad participation in free enterprise, they have generated encouraging success stories. Under the leadership of former United Steelworkers of America President Lynn Williams, unionists in the mid-1980s made ESOPS the core of an "investment bargaining" strategy — they agreed to swap cash for equity. That financial flexibility not only helped retain jobs, preserve pensions, and sustain union membership, it also helped revive the auto industry by restoring the cost competitiveness of U.S.-made steel. Although the unions pursued their traditional goals — decent wages, safe working conditions — they achieved them through non-traditional methods, hedging economic risk with ownership.

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Similarly, a $5 billion ESOP in 1994 transformed United Airlines into a 55 percent employee-owned company, creating a workforce whose 92,000 employees now share concerns far more complex than the size of their paychecks. United quickly became the nation's most profitable airline, gaining market share, tripling its share price, and posting record per-employee operating revenues. The airline confounded a skeptical financial community by outperforming its competitors while creating 12,000 new jobs during a nationwide bout of corporate downsizing.

This strategy also anchored United's assets, stabilizing an industry in which firms and jobs have long been pawns in the financial markets. In July, United was the site of the nation's largest union certification vote in two decades when 19,000 reservation takers, gate agents, and ticket sellers voted to join the International Association of Machinists. That development has the AFL-CIO rethinking its traditionally passive position on ownership.

New Ownership Horizons

ESOPs offer a promising way to open today's closed-system capitalism. But we need other means and incentives to make ownership participation a significant force in advancing opportunity and prosperity. One possibility: related enterprise stock ownership plans. These would encourage companies to make owners not only of their direct employees, but of others in their commercial network, such as those working for their suppliers and distributors and even free agent entrepreneurs who provide contract services.

Some private businesses are more than just workplaces — they become part of the lives and even identity of those that work in and around them. These companies' decisions have consequences far beyond the boardroom walls, and those that are affected should have a voice of their own. This fact leads to another possibility: customer stock ownership plans. These would redirect financial returns now paid to remote shareholders of such institutions — investor-owned utilities, for example — into stakes for local consumers.

The Green Bay Packers are the most famous example of the principle. The hugely popular football team has been tied to a small Wisconsin town for almost seven decades because its owners are the natural ones — local residents and fans. Other pro-football franchises are collected by the well-to-do like so many expensive doodads, but in Green Bay, the residents have a say in their team's future as owners of the team's 4,634 shares.

Democratic capitalism could give communities a real, market-driven avenue for providing input into the commercial decisions that most affect them — thereby ensuring that business choices better reflect local concerns. As they gain a personal stake, residents will have a powerful incentive to become better workers or customers — with all the rights and responsibilities that implies.

To start on the road to democratic capitalism, we should adopt a simple rule: When a firm provides tax-favored, performance-based bonuses to its executives, employees at all levels should be eligible to earn such compensation.

We now know how capitalism concentrates ownership. We also know that it need not. It's a bad habit, not some element immutably embedded in the system's financial DNA. We also know that means are available to ensure that it will not. The question is whether we can muster the essential combination of common sense, financial creativity, and leadership in both the public and the private sector to create a genuinely inclusive capitalism. Absent that, prosperity with social justice will remain just beyond our reach. ✧

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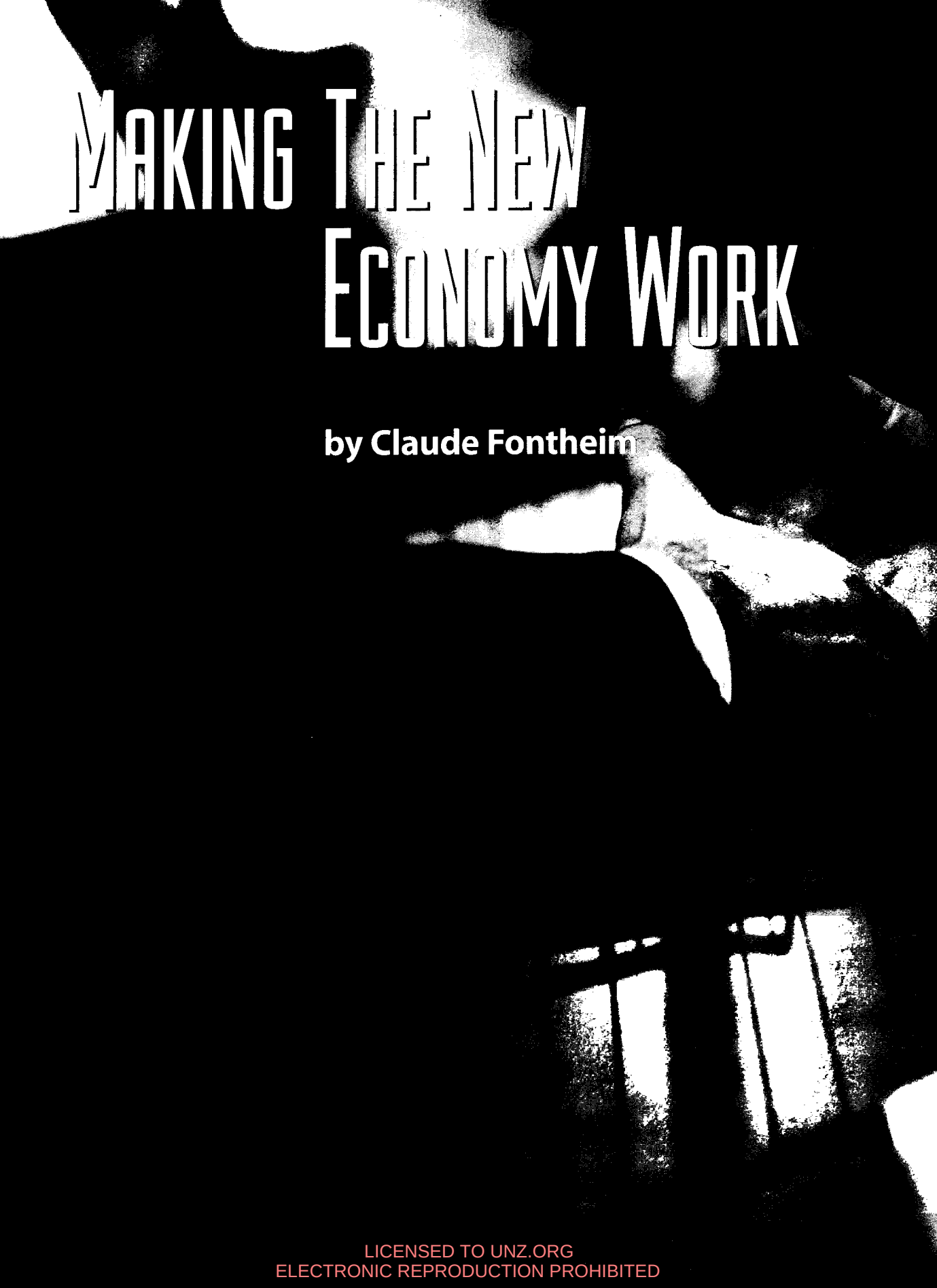
Making The New Economy Work

by Claude Fontheim



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As America becomes more integrated with the global economy and national boundaries diminish as barriers to trade and capital, we need new tools to enable working Americans to be upwardly mobile. A Wisconsin experiment provides an example of an innovative approach that communities nationwide would do well to imitate. In the early 1990s, southeastern Wisconsin — like much of the industrial Midwest — faced two pressing economic problems. At the same time that many low-skill jobs were disappearing to foreign competition, many other firms that were successfully introducing new technologies could not find enough workers with the necessary technical skills. The community responded by creating the Wisconsin Regional Training Partnership. This unique consortium joins industrial firms that agree to invest in worker training; labor unions and workers willing to develop new skills; and public agencies and academia, which coordinate and advise. Today, the partnership includes 46 companies employing 50,000 workers.

The Wisconsin Regional Training Partnership represents the kind of partnership between business, labor, and government that not only can address the inevitable dislocations caused by the New Economy but can help workers and companies prosper amid global competition. These partnerships give working Americans the tools to find jobs, keep jobs, and become upwardly mobile. However, very few existing programs do all three. Almost all of these partnerships make companies in their communities more competitive by supplying them with more highly skilled workers. Their missions should be combined to create a new breed of Community Workforce Partnerships.

Claude Fontheim is the Chief Executive Officer of Fontheim International, LLC, and Chairman of the Democratic Leadership Council's project on America, the Global Economy, and Trade.

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Existing partnerships demonstrate the tools that Community Workforce Partnerships could combine under one roof. For example, the Garment Industry Development Corporation in New York helps garment manufacturers restructure and modernize to meet marketplace demands. It established a 9,500-square-foot training center to introduce small businesses to high-tech equipment and to help workers upgrade their skills, including their language skills. In Iowa, the Department of Economic Development fosters coordination among Iowa firms with similar training needs, such as those in the plastics industry, software development, and the recycling and insurance sectors — efforts particularly helpful to small firms. The department succeeds because it acts in concert with the business community. For example, the department sponsors the Iowa Mold-builders Apprenticeship Program — bringing together the Iowa Plastics Industry Consortium and the state's community colleges — to ensure that the demands for skilled labor in the state's rapidly growing plastics industry are met. Once hired by a participating company, students from around the state attend on-line classes two days a week via the Iowa Communications Network.

Operating locally, Community Workforce Partnerships would bring businesses, workers, and educational institutions together with state and local government agencies. Combined, they would provide workers and businesses with the skills, training, and other services to survive and prosper in the new global economy. Their tasks could include services such as inventories of job vacancies and predictions of local workforce needs, but these partnerships would be designed to respond to the specific needs of diverse communities. As in the examples discussed above, they would depend on workers and business each assuming substantial responsibility.

Successful Community Workforce Partnerships would expand upon the best examples of community-based efforts led by the private sector. They could look to Michigan, where the Virtual Automotive College specializes in developing diverse methods to train automotive workers, including on-site training centers, interactive television, CD-ROMs, and the Internet. They could look to a new development called Easton in Columbus, Ohio, where a public-private partnership sponsored by local business and government provides services such as transportation, day care, and job placement to welfare recipients entering the work force. And they could look to New York City, where the Garment Industry Development Corporation has evolved over nearly 15 years. Originally designed to help apparel factories find affordable real estate, the group today trains workers and management.

These models can provide a template of what works. Success, their examples suggest, requires:

- flexibility, so communities can design programs that meet their particular needs;
- responsibility on the part of both workers and employers, who must play a leading role in designing and implementing these programs; and
- a wide reach, to help all workers achieve upward mobility, not only those who are displaced or downsized.

The recently enacted Workforce Investment Act takes a very significant step in the right direction but focuses only on displaced and disadvantaged workers. Community Workforce Partnerships would serve all working Americans (and thus benefit workers and business more significantly), whether by providing school-to-work assistance, transportation services, or other resources.

To build on these successful examples, the federal government should offer matching grants to states and cities wishing to create Community Workforce Partnerships to help workers be upwardly mobile or rapidly re-employed if displaced. The communities seeking grants should demonstrate that the local business community is involved and willing to lead. Beyond that, states and cities should design partnerships to meet local needs. By rebuilding confidence in all Americans' ability to be upwardly mobile, we can put a human face on the global economy. Community Workforce Partnerships can help us realize this very American aspiration for widely shared opportunities. ✧

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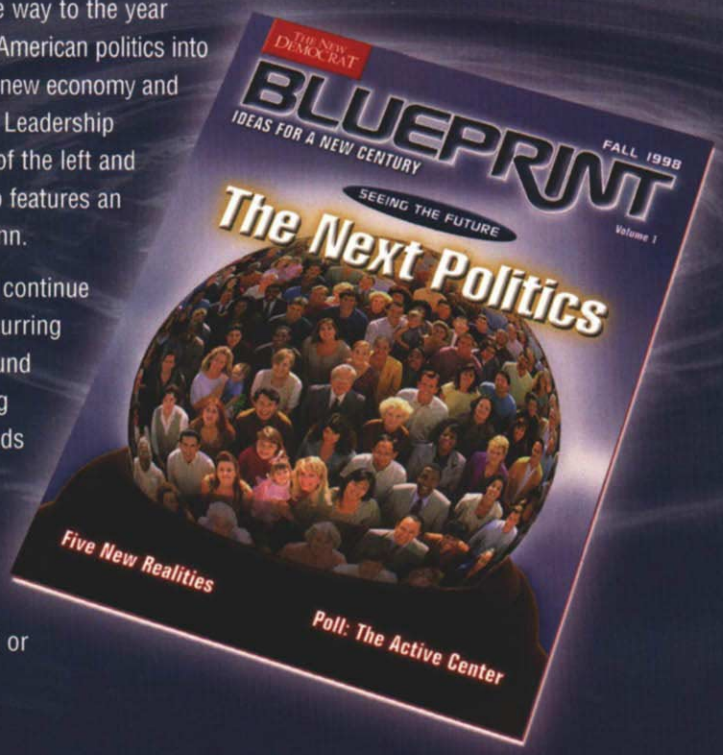

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